

Patricia M. French  
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July 12, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following information requests:

From the Attorney General:

|                |          |          |          |
|----------------|----------|----------|----------|
| AG-3-26 (Supp) | AG-4-24  | AG-12-5  | AG-12-10 |
| AG-12-12       | AG-12-23 | AG-12-27 | AG-12-28 |
| AG-12-32       | AG-12-33 | AG-12-36 | AG-23-4  |
| AG-25-1        | AG-25-5  |          |          |

From the Department:

|                         |                 |                 |
|-------------------------|-----------------|-----------------|
| DTE-1-20 (Revised Att.) | DTE-6-9 (Supp)  | DTE-9-1 (Supp)  |
| DTE-9-5 (Supp)          | DTE-9-8 (Supp)  | DTE-9-13 (Supp) |
| DTE-9-18 (Supp)         | DTE-9-19 (Supp) | DTE-9-20 (Supp) |
| DTE-14-1 (Supp)         |                 |                 |

From the USWA:

USWA-2-2                      USWA-2-6                      USWA-2-17

From the UWUA:

UWUA-1-31                      UWUA-3-43

The Company also includes with this submission the following supplement to a Bay State exhibit introduced during the July 7, 2005 hearings:

Exhibit BSG-7 (JES) SUPPLEMENTAL

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc:     Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)  
A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)  
Andreas Thanos, Assistant Director, Gas Division (1 copy)  
Alexander Cochis, Assistant Attorney General (4 copies)  
Service List (1 electronic copy)

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
THIRD SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

AG-3-26 Referring to Exhibit BSG/JES-1, Schedule JES-6, page 20, lines 2 and 3, please provide complete copies of the source documents for the numbers indicated on those lines.

Response: The source for Bay State's projected Gross Domestic Price Deflator was Global Insight's February 2005 projections. Attachment AG-3-26, page 1 provides the projections for Real GDP and Nominal GDP shown on lines 2 and 3, respectively, with the GDP deflator the result of line 3 divided by line 2. The pertinent pages from the web site are identified as pages 2 through 6.

Also included in Attachment AG-3-26 is the inflation adjustment based on the May 2005 projections. Pages 7 shows the projections as explained above. Pages 8 through 11 are copies of the pertinent pages. The more recent projections show a slight increase in the rate of inflation from 3.51% to 4.67%.

**Supplemental Response:**

Included is Attachment AG-3-26 (Supp) reflecting a revised inflation factor based on July 2005. The more recent projection shows a rate of inflation of 4.31% compared to the 3.51% included in the original filing.

## SUPPLEMENTAL

Bay State Gas Company  
 Adjustment To Operating Expenses - Inflation Increase In GDPIPD  
 Text Year Ended December, 2004  
 July 2005

| Line<br>No.           | 2002:1<br>(1) | 2002:2<br>(2) | 2002:3<br>(3) | 2002:4<br>(4) | 2003:1<br>(5) | 2003:2<br>(6) | 2003:3<br>(7) | 2003:4<br>(8) | 2004:1<br>(9) | 2004:2<br>(10) | 2004:3<br>(11) | 2004:4<br>(12) | 2005:1<br>(13) | 2005:2<br>(14) | 2005:3<br>(15) | 2005:4<br>(16) | 2006:1<br>(17) | 2006:2<br>(18) | 2006:3<br>(19) | 2006:4<br>(20) | 2007:1<br>(21) | 2007:2<br>(22) | 2007:3<br>(23) | 2007:4<br>(24) |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1 Billions of Dollars |               |               |               |               |               |               |               |               |               |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                |
| 2 Real GDP            | 9993.5        | 10052.6       | 10117.3       | 10135.9       | 10184.4       | 10287.4       | 10472.8       | 10580.7       | 10687.5       | 10784.7        | 10891.0        | 10994.3        | 11096.2        | 11180.5        | 11279.8        | 11359.6        | 11446.1        | 11528.9        | 11612.5        | 11702.6        | 11792.0        | 11893.3        | 11990.5        | 12094.3        |
| 3 Nominal GDP         | 10338.2       | 10445.7       | 10546.5       | 10617.5       | 10744.6       | 10884.0       | 11116.7       | 11270.9       | 11472.6       | 11657.5        | 11814.9        | 11994.8        | 12191.7        | 12357.2        | 12519.2        | 12673.7        | 12839.4        | 12999.4        | 13140.9        | 13300.5        | 13469.3        | 13644.8        | 13816.6        | 14002.4        |
| 4 GDP deflator        | 1.0345        | 1.0391        | 1.0424        | 1.0475        | 1.0550        | 1.0580        | 1.0615        | 1.0652        | 1.0725        | 1.0809         | 1.0848         | 1.0910         | 1.0987         | 1.1052         | 1.1099         | 1.1157         | 1.1217         | 1.1275         | 1.1316         | 1.1365         | 1.1422         | 1.1473         | 1.1523         | 1.1578         |



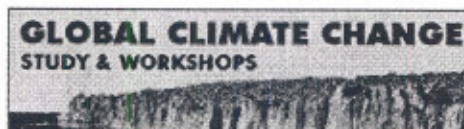
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# SUPPLEMENTAL

Attachment AG-3-26  
Page 3 of 5

| 2002:2 | 2002:3 | 2002:4 | 2003:1 | 2003:2 | 2003:3 | 2003:4 | 2004:1 | 2004:2 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2.4    | 2.6    | 0.7    | 1.9    | 4.1    | 7.4    | 4.2    | 4.5    | 3.3    |
| 1.8    | 2.0    | 0.7    | 2.4    | 5.2    | 6.8    | 3.7    | 3.3    | 2.5    |
| 2.8    | 2.9    | 2.5    | 2.7    | 3.9    | 5.0    | 3.6    | 4.1    | 1.6    |
| 4.4    | 14.0   | -2.4   | -0.1   | 20.6   | 16.5   | 3.9    | 2.2    | -0.3   |
| 0.8    | -0.6   | 5.3    | 5.0    | 1.6    | 6.9    | 5.1    | 6.7    | 0.1    |
| 3.5    | 2.4    | 2.2    | 2.1    | 1.8    | 1.9    | 2.8    | 3.3    | 2.7    |
| -9.6   | -1.1   | -3.2   | -0.2   | 11.8   | 15.7   | 11.0   | 4.2    | 12.4   |
| -4.5   | 4.6    | -2.0   | 4.5    | 11.0   | 21.7   | 12.0   | 8.0    | 14.2   |
| 1.3    | 10.5   | -3.8   | 17.1   | 14.4   | 29.2   | 16.3   | 16.4   | 14.1   |
| -14.7  | 1.7    | -3.4   | 7.4    | -1.7   | 3.2    | -4.5   | 6.6    | 2.1    |
| -2.4   | -4.2   | -15.6  | 10.1   | 8.7    | 26.9   | 13.8   | 20.0   | 32.9   |
| -14.7  | 1.7    | -3.4   | 7.4    | -1.7   | 3.2    | -4.5   | 6.6    | 2.1    |
| -26.0  | -7.7   | 0.2    | -23.9  | 25.5   | 12.9   | 11.9   | -15.0  | 26.1   |
| -75.7  | -72.7  | 139.3  | -52.9  | 40.3   | -42.7  | 25.3   | -71.6  | 328.3  |
| 16.6   | 1.9    | 3.2    | -4.7   | 2.9    | 27.5   | 16.8   | 8.3    | 16.1   |
| -22.6  | -16.0  | -6.6   | -13.0  | 14.5   | -1.3   | 7.9    | -7.6   | 6.9    |
| -13.2  | -12.2  | -10.7  | -11.5  | 5.4    | -0.3   | -6.3   | -9.1   | 21.3   |
| -37.2  | -39.4  | -8.9   | -25.5  | 23.3   | -5.7   | -4.1   | -16.8  | -14.2  |
| -41.0  | -32.7  | 0.4    | -30.0  | -27.5  | -16.0  | 71.4   | -13.4  | -37.0  |
| -45.9  | 27.6   | 0.1    | 16.8   | 100.1  | 31.9   | 13.7   | 6.7    | 20.0   |
| -1.8   | -18.0  | -6.5   | -11.1  | 31.6   | -9.0   | 2.3    | -7.0   | 16.8   |
| 11.4   | 2.8    | 4.2    | 7.6    | 9.0    | 22.5   | 9.6    | 5.0    | 16.5   |
| 11.0   | 3.1    | -4.2   | -1.5   | -1.6   | 11.3   | 17.4   | 7.3    | 7.3    |
| 11.4   | 5.4    | 9.6    | -1.9   | 2.5    | 2.9    | 17.1   | 10.6   | 12.6   |
| 12.8   | 2.9    | 9.2    | 0.3    | 22.1   | -3.3   | 4.8    | 7.1    | 2.7    |
| 0.3    | 1.7    | 1.4    | 0.1    | -0.5   | 2.2    | -0.1   | 0.0    | 1.9    |

|         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 10052.6 | 10117.3 | 10135.9 | 10184.4 | 10287.4 | 10472.8 | 10580.7 | 10697.5 | 10784.7 |
| 10445.7 | 10546.5 | 10617.5 | 10744.6 | 10884.0 | 11116.7 | 11270.9 | 11472.6 | 11657.5 |

# SUPPLEMENTAL

Attachment AG-3-26  
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| 2004:3 | 2004:4 | 2005:1 | 2005:2 | 2005:3 | 2005:4 | 2006:1 | 2006:2 | 2006:3 | 2006:4 | 2007:1 | 2007:2 | 2007:3 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 4.0    | 3.8    | 3.8    | 3.1    | 3.6    | 2.9    | 3.1    | 2.9    | 2.9    | 3.1    | 3.1    | 3.5    | 3.3    |
| 5.0    | 3.4    | 3.0    | 4.8    | 3.1    | 2.6    | 3.1    | 3.1    | 3.2    | 3.2    | 3.1    | 3.3    | 3.2    |
| 5.1    | 4.2    | 3.6    | 3.1    | 2.8    | 2.8    | 3.4    | 3.2    | 3.4    | 3.3    | 2.9    | 3.0    | 2.8    |
| 17.2   | 3.9    | 1.8    | 12.8   | -2.7   | 0.3    | 1.0    | 3.3    | 5.8    | 4.7    | 4.5    | 4.1    | 3.8    |
| 4.7    | 5.9    | 5.5    | 0.8    | 3.0    | 3.4    | 4.0    | 3.3    | 3.2    | 3.3    | 2.8    | 3.1    | 2.8    |
| 3.0    | 3.4    | 3.1    | 2.4    | 3.8    | 3.0    | 3.5    | 3.1    | 3.1    | 3.0    | 2.7    | 2.7    | 2.7    |
| 13.0   | 14.5   | 4.1    | 5.5    | 7.4    | 10.5   | 8.6    | 9.1    | 5.8    | 4.4    | 5.1    | 6.0    | 6.9    |
| 17.5   | 18.4   | 6.1    | 6.7    | 9.0    | 9.2    | 8.1    | 7.5    | 7.1    | 5.8    | 5.6    | 5.9    | 6.4    |
| 7.5    | 17.7   | 22.0   | 8.2    | 14.0   | 12.8   | 11.8   | 12.2   | 10.6   | 8.9    | 7.7    | 7.9    | 7.7    |
| 27.7   | 7.6    | 4.0    | -8.5   | 4.6    | 9.5    | 12.1   | 6.9    | 3.4    | 1.3    | 1.2    | 0.6    | 0.9    |
| -1.6   | -7.7   | 29.4   | -8.3   | 7.0    | 13.2   | 11.8   | 11.7   | 7.9    | 8.3    | 6.1    | 6.3    | 6.6    |
| 27.7   | 7.6    | 4.0    | -8.5   | 4.6    | 9.5    | 12.1   | 6.9    | 3.4    | 1.3    | 1.2    | 0.6    | 0.9    |
| 38.1   | 40.6   | -16.4  | 4.9    | 2.6    | 2.6    | -0.9   | -0.4   | 5.5    | 4.7    | 6.8    | 7.5    | 11.2   |
| -60.4  | 116.8  | -79.7  | 294.1  | 6.7    | 6.8    | 14.4   | 15.5   | 13.0   | 10.3   | 3.8    | 8.4    | 6.7    |
| 22.6   | 12.1   | -10.8  | 20.1   | 4.2    | 4.6    | 2.0    | 1.2    | 1.3    | 1.6    | 2.1    | 3.2    | 3.3    |
| -1.1   | 2.1    | -2.4   | 1.2    | 2.2    | 14.9   | 10.2   | 14.6   | 1.6    | -0.1   | 3.3    | 6.4    | 8.5    |
| -1.8   | -9.6   | -3.9   | 4.9    | 1.5    | 9.5    | 9.2    | 13.3   | 13.3   | 16.3   | 11.0   | 6.5    | 4.9    |
| 25.3   | 70.9   | 12.7   | 2.1    | 4.9    | 20.7   | 13.1   | 27.1   | 13.6   | 9.3    | 12.6   | 27.0   | 28.4   |
| -20.9  | 15.0   | 22.5   | -19.0  | 1.9    | 9.6    | 6.2    | 4.2    | 5.6    | 4.6    | 7.9    | 7.6    | 6.8    |
| 9.5    | 23.8   | -6.2   | 19.2   | 12.3   | 35.6   | 16.0   | 27.4   | -25.5  | -36.9  | -22.3  | -2.9   | 12.6   |
| 1.6    | -8.6   | -14.0  | -5.2   | -5.9   | 8.5    | 8.2    | 7.5    | 6.3    | 6.1    | 7.2    | 7.2    | 7.8    |
| 1.6    | 3.4    | 11.5   | 7.2    | 2.7    | -7.6   | -4.5   | -6.4   | -5.7   | -3.4   | -3.2   | -1.6   | -3.0   |
| 6.0    | 3.2    | 8.9    | 9.2    | 7.0    | 6.0    | 5.4    | 5.8    | 7.5    | 9.2    | 10.5   | 10.8   | 11.0   |
| 4.6    | 11.4   | 9.6    | 0.6    | 6.3    | 6.7    | 5.5    | 4.0    | 4.0    | 5.0    | 5.0    | 4.8    | 5.2    |
| 4.8    | 1.2    | 0.6    | 5.6    | 5.1    | 2.3    | 1.5    | 1.3    | 1.2    | 1.2    | 1.1    | 0.9    | 0.9    |
| -1.7   | 0.6    | -0.1   | 2.7    | 1.0    | 2.4    | 2.5    | 1.8    | 2.3    | 2.4    | 2.1    | 1.9    | 1.4    |

|         |         |         |         |         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 10891.0 | 10994.3 | 11096.2 | 11180.5 | 11279.8 | 11359.6 | 11446.1 | 11528.9 | 11612.5 | 11702.6 | 11792.0 | 11893.3 | 11990.5 |
| 11814.9 | 11994.8 | 12191.7 | 12357.2 | 12519.2 | 12673.7 | 12839.4 | 12999.4 | 13140.9 | 13300.5 | 13469.3 | 13644.8 | 13816.6 |

# SUPPLEMENTAL

Attachment  
Page

| 7:4  | 2008:1 | 2008:2 | 2008:3 | 2008:4 | 2009:1 | 2009:2 | 2009:3 | 2009:4 | 2010:1 | 2010:2 | 2010:3 | 2010:4 |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3.5  | 3.2    | 3.5    | 2.9    | 2.9    | 2.9    | 3.0    | 2.6    | 3.0    | 2.8    | 3.1    | 2.6    | 2.9    |
| 3.4  | 3.0    | 3.5    | 3.0    | 3.0    | 3.0    | 3.0    | 2.6    | 3.0    | 2.8    | 3.1    | 2.6    | 2.9    |
| 3.1  | 2.7    | 3.3    | 3.1    | 3.1    | 3.0    | 3.1    | 2.8    | 3.0    | 2.5    | 2.8    | 2.5    | 2.5    |
| 4.6  | 2.7    | 4.7    | 4.8    | 6.1    | 6.1    | 5.5    | 3.7    | 4.9    | 3.5    | 4.1    | 3.2    | 3.6    |
| 3.1  | 2.8    | 3.3    | 3.0    | 3.0    | 2.7    | 3.0    | 2.8    | 2.9    | 2.5    | 2.8    | 2.4    | 2.5    |
| 2.8  | 2.7    | 3.0    | 2.8    | 2.6    | 2.5    | 2.6    | 2.6    | 2.6    | 2.3    | 2.5    | 2.4    | 2.4    |
| 6.0  | 5.4    | 5.7    | 4.8    | 4.8    | 4.7    | 4.2    | 3.9    | 3.7    | 3.2    | 4.3    | 4.3    | 4.4    |
| 6.7  | 6.5    | 6.2    | 5.9    | 5.7    | 5.3    | 5.4    | 5.3    | 4.7    | 4.5    | 4.5    | 4.7    | 4.7    |
| 7.7  | 7.9    | 8.1    | 8.3    | 8.3    | 8.4    | 8.6    | 8.4    | 7.9    | 7.3    | 7.0    | 7.0    | 7.2    |
| 4.4  | 5.1    | 4.3    | 2.0    | 3.2    | 1.1    | 0.3    | 0.9    | -0.1   | -0.4   | 0.3    | 0.9    | 0.7    |
| 6.6  | 6.8    | 6.3    | 6.3    | 5.1    | 5.1    | 4.9    | 4.7    | 4.1    | 4.1    | 3.9    | 4.3    | 4.5    |
| 4.4  | 5.1    | 4.3    | 2.0    | 3.2    | 1.1    | 0.3    | 0.9    | -0.1   | -0.4   | 0.3    | 0.9    | 0.7    |
| 9.0  | 6.4    | 4.3    | 5.7    | 3.3    | 2.9    | 3.0    | 2.6    | 1.4    | 2.3    | 2.1    | 3.1    | 2.9    |
| 8.6  | 7.6    | 8.6    | 8.4    | 9.3    | 6.9    | 8.2    | 7.3    | 8.1    | 5.9    | 6.3    | 5.5    | 5.7    |
| 3.6  | 3.1    | 3.4    | 2.3    | 2.2    | 1.8    | 2.1    | 1.7    | 2.0    | 1.9    | 2.4    | 2.0    | 2.3    |
| 3.8  | 2.1    | 4.2    | 1.3    | 2.1    | 3.0    | 0.6    | -0.2   | 0.3    | -0.6   | 3.6    | 3.1    | 3.2    |
| 2.3  | 2.4    | 4.2    | -0.1   | -0.3   | 0.7    | -0.6   | 0.1    | -0.2   | -0.5   | 1.8    | 1.0    | 1.6    |
| 9.1  | 21.4   | 33.3   | 9.7    | 14.8   | 13.2   | 9.1    | 9.0    | 12.6   | 10.4   | 9.8    | 9.5    | 11.2   |
| 2.8  | 0.3    | 2.8    | 9.2    | 8.7    | 6.7    | -0.8   | -4.4   | 2.6    | -1.3   | 6.2    | 2.1    | -1.5   |
| -5.5 | -9.0   | -8.7   | -10.6  | -9.0   | -4.3   | -8.3   | -12.2  | -15.3  | -15.8  | 0.0    | 4.0    | 5.1    |
| 7.2  | 4.7    | 5.0    | 5.5    | 6.0    | 6.1    | 6.2    | 5.6    | 4.6    | 3.8    | 4.3    | 4.2    | 4.3    |
| -0.4 | -1.0   | -1.3   | -2.9   | -1.2   | -1.0   | -0.7   | -1.0   | 0.9    | 1.4    | 1.9    | 1.3    | 2.2    |
| 10.6 | 10.3   | 9.5    | 9.1    | 8.6    | 8.1    | 7.8    | 7.7    | 7.5    | 7.9    | 8.1    | 8.4    | 8.5    |
| 5.4  | 5.1    | 4.8    | 5.0    | 5.2    | 4.9    | 4.6    | 5.1    | 4.6    | 4.1    | 4.1    | 4.5    | 4.1    |
| 0.8  | 0.7    | 0.9    | 0.5    | 0.7    | 0.8    | 0.5    | 0.7    | 1.2    | 2.0    | 0.8    | -0.8   | -0.5   |
| 1.5  | 1.6    | 2.1    | 1.8    | 1.4    | 1.6    | 1.7    | 1.2    | 1.7    | 1.3    | 1.7    | 1.0    | 1.7    |

|     |         |         |         |         |         |         |         |         |         |         |         |         |
|-----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 4.3 | 12188.7 | 12293.3 | 12382.9 | 12472.9 | 12561.8 | 12655.3 | 12737.9 | 12831.5 | 12919.4 | 13017.8 | 13102.7 | 13197.2 |
| 2.4 | 14193.2 | 14387.1 | 14564.7 | 14744.2 | 14937.3 | 15125.0 | 15299.2 | 15488.2 | 15682.9 | 15884.6 | 16073.0 | 16277.7 |

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-4-24      Please indicate whether the Company shall deposit all funds collected from customers through the pension / PBOP mechanism to the respective trust funds in the year the funds are collected. If the answer is anything other than an unqualified "yes", please explain in complete detail how the funds collected under the pension / PBOP mechanism will be used.

Response:

The Company will deposit amounts received through the pension / PBOP mechanism into the appropriate trust vehicles as follows:

With regard to PBOP, the Company will fund the trust, at its discretion, based on the business case for such funding and to the extent that a tax deduction is allowable for the funding in a particular recovery period.

With regard to pensions, the Company will fund the trust, to meet the minimum contribution amount required by law. Any additional pension contributions will be funded, at its discretion, based on the business case for such funding and to the extent that a tax deduction is allowable for the funding in a particular recovery period.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-5 Referring to Exhibit BSG/SAB-1, page 5, lines 2-10, please provide copies of the reports, analyses, memorandum, e-mails, etc. that provide Hewitt's recommendations for the policy and implementation of the compensation and benefits package.

Response:

Please refer to the Company's responses to information requests AG 12-7, AG 12-24 and AG 12-25. These responses provide the results of the analyses performed by Hewitt pursuant to discussion of overall compensation and benefits strategy.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-10 Referring to Exhibit BSG/SAB-1, page 7, lines 10-22 and page 8, lines 1-15, please indicate whether the components of the newly revised compensation and benefits listed are all of the revisions and changes that were made during 2004. Please also indicate whether any other changes have been made since then, and if so, please provide a complete and detailed description of each of those changes.

Response:

The components of compensation and benefits shown at pages 7 and 8 of my testimony represent the compensation and benefits for the majority of employees at Bay State. In addition, stock options are available to employees beginning at the manager level and other long-term stock plans are provided to a small group of NiSource executives.

There are certain benefits changes that have taken or will take effect subsequent to 2004. In 2005, the Company subsidy toward health care coverage for exempt employees was lowered to approximately 80 percent from 85 percent in 2004. For 2006 and beyond, the Company will limit its contribution toward health care and dental coverage for exempt employees in any plan to 103 percent of the prior year Company contribution to the PPO option. Also, effective January 1, 2006 exempt employees will have the option of electing a new account balance pension plan design with a new 401(k) savings plan match. Alternatively, through 2010 employees may retain their current retirement income program (pension and savings plan match). By 2011, all current exempt employees will be covered under the new retirement program design. Additionally, retiree life insurance will be reduced to \$10,000 for exempt employees who retire after 2005.

Other changes to the Company's health plans for 2006 include the addition of a consumer-driven health plan design in the form of a high-deductible health plan with the availability of a health savings account, the addition of an exam-only dental option and an exam-only vision option. Also, for exempt employees, the Company plans to reduce its portion of co-insurance under the PPO and increase participant co-pays and out-of-pocket maximums.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-12 Referring to Exhibit BSG/SAB-1, page 17, lines 1-7, it indicates that "Hewitt found that, compared to the market, Bay State's base pay for non-union employees was competitive. Therefore, it recommended that each individual salary should be compared to the salary range for each job and raised if the pay was below the bottom of the established range." Please indicate whether salaries were lowered if they were above the established range, and if not, why not.

Response:

Less than ten employees at Bay State were determined to be paid above the top of the range. Because the compensation for the employees was not reduced, the employees are not eligible for salary increases within the performance management program. Instead, depending on performance, they are eligible for lump-sum amounts in lieu of salary increases. As the tops of the wage ranges increase with inflation, the employees' salaries will fall back within the ranges.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-23 Referring to Exhibit BSG/SAB-1, page 43, lines 12-19, please provide all analyses of the causes for the 20.3 percent increase in dental costs indicated there.

Response: Please refer to the Company's response to information request DTE 18-13.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-27 Referring to Exhibit BSG/SAB-1, page 48, Table SAB-1, please provide the range of discount rates that management had to choose from for each of the years 2000 through 2004, along with the source documents for those rates. For each of those years, please provide the pension expense and the PBOP expense, separately, assuming the discount rate at (1) the low end of the range is used and (2) the high end of the range is used.

Response:

Please refer to the Company's response to information request AG 19-16 for information regarding the discount rates used in the calculation of pension and PBOP expense. The Company did not perform studies of pension and PBOP expense assuming the high and low ends of a discount rate range were applied.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-28 Referring to Exhibit BSG/SAB-1, page 48, Table SAB-1, please provide the range of health care trend rates that management had to choose from for each of the years 2000 through 2004, along with the source documents for those rates. For each of those years, please provide the PBOP expense, assuming the discount rate at (1) the low end of the range is used and (2) the high end of the range is used.

Response:

Please see the Company's response to AG 19-22 with regard to the health care trend rate. The Company did not perform studies of the effects on PBOP expense of various health care trend or discount rates.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-32 Referring to Exhibit BSG/SAB-1, page 48, Table SAB-1, please provide separately the expected contribution to the pension and the PBOP trust funds for 2005.

Response: The Company does not intend to fund the trusts for pension and PBOP during 2005.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-33 Referring to Exhibit BSG/SAB-1, page 48, Table SAB-1, please provide a complete and detailed description of the nature of costs included in "Qualified" Pension Expense.

Response:

The costs included in Qualified Pension Expense are the expense amounts associated with the pension plans qualified under Section 401(a) of the U.S. Internal Revenue Code. The qualified plans include the Pension Plan for Operating Employees of Bay State Gas Company and the Bay State Gas Company Pension Plan.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards  
NiSource Corporate Services Company

AG-12-36 Referring to Exhibit BSG/SAB-1, page 50-51, please indicate the current amount of the additional minimum liability that the Company seeks treatment for as a regulatory asset. Please also provide the workpapers, calculations, formulas, assumptions, and supporting documentation used to determine that amount.

Response: Please refer to the Company's response to information request DTE 8-8 for the amount of additional minimum liability charged to other comprehensive income as of December 31, 2004. Please refer to the actuarial reports provided in response to AG 4-1 for more detail on the additional minimum liability.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-THIRD SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Danny G. Cote, General Manager

AG-23-4      Refer to the Company's response to AG-2-1 (Attachments 1 to 4) (June 6, 2005). Produce all work papers, calculations and assumptions for the calculations in these spread sheets. If the Company submits revised calculations for these spread sheets, explain the reason for the revision, indicate the Bay State employee(s) responsible for any manual review of any Company files that gathered data for the revision, identify exactly which work dossiers or other Company files were reviewed and produce all work papers, calculations and assumptions for the revised calculations in these spread sheets.

Response:    The Company has submitted revised calculations for the data initially provided in response to Information Request AG-2-1. Please see AG-2-1 Supplemental Response (dated June 29, 2005) for the reason for the revised calculations.

The Bay State Gas Company employee responsible for the manual review of the Company files was Edward Collins. The review was done by William F. St. Cyr, Donald Merriam, Joan Furtado, Robert Allen, Robert Tetrault, James Murphy and Edward Collins. The Company used its Work Order Management System (WOMS) to identify main leak repairs performed in 2004 due to corrosion. The WOMS is the basis for the graph and worksheets contained in Attachment AG-2-1 Supplemental. The manual review was undertaken because the WOMS is unable to differentiate between corrosion leaks occurring on cathodically protected and unprotected main.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-FIFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Danny G. Cote, General Manager

AG-25-1      Refer to the Company's response to AG-6-4 where the Company states: "This inventory of coated unprotected steel main has been determined to have ineffective coating . . ." How did the Company determine that the mains have ineffective coating? What is the cause(s) of the coating being ineffective? Identify and produce copies of all reports, analyses and other documents regarding the ineffective coating.

Response:      When the Company works on a pipe segment, whether it be a leak, new service, tie-in, etc., it tracks the pipe coating condition through field data captured on work orders. The pipe can be determined to have bad coating because of improper installation procedures, coating that had inferior adhesion or ineffective coating materials that were used. In some instances, coating was never applied to valves, tees, and irregular fittings and joints that were attached to coated unprotected steel. These would also be reasons the coated pipe could not be protected.

Each segment of coated unprotected steel main is evaluated when exposed. There is a section on the work order for coating condition. The choices are good, medium damage or extensive damage. If extensive damage is checked it would mean the coating is ineffective. These segments with ineffective coating are tracked through WOMS.

The Company has 106 miles, throughout Massachusetts, of unprotected coated steel with ineffective coating. Every work order generated, for any work requiring excavation, has pipeline evaluation information recorded. There would be hundreds, if not thousands, of work orders relating to coating evaluation and it would be extremely tedious and time consuming to manually investigate. All of these work orders are filed, stored and compiled in their respective operational centers and are available upon request.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-FIFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Danny G. Cote. General Manager

AG-25-5      Refer to the Company's response to AG-6-4, page 2 of 2. Does the Company only determine areas of "active corrosion" with leak surveys? What other methods does the Company employ? Since 1990, identify and produce copies of all reports, analyses or other documentation that conclude an area of active corrosion existed for the Brockton and Lawrence service areas.

Response:    Active corrosion is defined as "continuing corrosion which, unless controlled, could result in a condition that is detrimental to public safety" as defined in Title 49, Subpart I § 192.457 from August 1, 1971 to the latest revision of this regulation.

All of Bay State's unprotected coated steel mains are monitored and evaluated for active corrosion using leakage surveys. It is currently the only method the Company uses.

If a leak is found during the course of the Company's leakage surveys, that is considered detrimental to public safety it would be classified as a Class 1 leak and prompt remedial action would be taken. The segment would be repaired or replaced. Once this action is taken, active corrosion would no longer exist.

In both Brockton and Lawrence, a Class 1 leak caused by active corrosion would be recorded and tracked in the Company's WOMS system as a Class 1 corrosion leak. The work orders for Class 1 leaks are filed in a usual and customary manner and are not separated by category. To go through hundreds, if not thousands, of work orders to produce 15 years of information would be extremely tedious and time consuming. All of these work orders are filed, stored and compiled in each individual operating center and are available upon request.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: Stephen H. Bryant, President

DTE 1-20      Refer to Exh. BSG/SHB-1, at 50. Please provide a copy of the lease agreement for the Metscan meter reading equipment.

Response: **(Revision)** Revised Attachment DTE 1-20 (d) is a copy of the Master Lease Agreement covering each of the Lease Schedules submitted with the original response. The original response contained an incorrect master lease.

**MASTER EQUIPMENT LEASE AGREEMENT No. 31946**

**LESSOR:** FLEET CREDIT CORPORATION  
a Rhode Island corporation

**Address:** 50 Kennedy Plaza  
Providence, Rhode Island 02903-2305

**LESSEE:** BAY STATE GAS COMPANY  
a Massachusetts corporation

**Address:** 300 Friberg Parkway  
Westborough, MA 01581

**1. LEASE OF EQUIPMENT**

Subject to the terms and conditions set forth herein (the "Master Lease") and in any Lease Schedule incorporating the terms of this Master Lease (each, a "Lease Schedule"), Lessor agrees to lease to Lessee, and Lessee agrees to lease from Lessor, the items and units of personal property described in each such Lease Schedule, together with all replacements, parts, additions, accessories and substitutions therefor (collectively, the "Equipment"). Each Lease Schedule shall constitute a separate, distinct and independent lease of Equipment and contractual obligation of Lessee. References to the "the Lease", "this Lease" or "any Lease" shall mean and refer to any Lease Schedule which incorporates the terms of this Master Lease, together with all exhibits, addenda, schedules, certificates, riders and other documents and instruments executed and delivered in connection with such Lease Schedule or this Master Lease, all as the same may be amended or modified from time to time. The Equipment is to be delivered and installed at the location specified or referred to in the applicable Lease Schedule. The Equipment shall be deemed to have been accepted by Lessee for all purposes under this Lease upon Lessor's receipt of an Acceptance Certificate with respect to such Equipment, executed by Lessee after receipt of all other documentation required by Lessor with respect to such Equipment. Lessor shall not be liable or responsible for any failure or delay in the delivery of the Equipment to Lessee for whatever reason. As used in the Lease with respect to any item of Equipment, the terms "Acceptance Date", "Acquisition Cost", "Rental Payment(s)", "Rental Payment Date(s)", "Rental Payment Numbers", "Rental Payment Commencement Date", "Lease Term" and "Lease Term Commencement Date" shall have the meanings and values assigned to them in the Lease Schedule and the Acceptance Certificate applicable to such Equipment.

**2. TERM AND RENT**

The Lease Term for each item of Equipment shall be as specified in the applicable Lease Schedule. Rental Payments shall be in the amounts and shall be due and payable as set forth in the applicable Lease Schedule. Lessee shall, in addition, pay interim rent to Lessor on a pro-rata, per-diem basis from the Acceptance Date to the Lease Term Commencement Date set forth in the applicable Acceptance Certificate, payable on such Lease Term Commencement Date. If any rent or other amount payable hereunder shall not be paid within 10 days of the date when due, Lessee shall pay overdue interest on any delinquent payment or other amounts due under the Lease (by reason of acceleration or otherwise) from the due date until paid at the rate of 1 1/2% per month or the maximum amount permitted by applicable law, whichever is lower. All payments to be made to Lessor shall be made to Lessor in immediately available funds at the address shown above, or at such other place as Lessor shall specify in writing. THIS IS A NON-CANCELABLE, NON-TERMINABLE LEASE OF EQUIPMENT FOR THE ENTIRE LEASE TERM PROVIDED IN EACH LEASE SCHEDULE HERETO.

**POSSESSION; PERSONAL PROPERTY**

No right, title or interest in the Equipment shall pass to Lessee other than the right to maintain possession and use of the Equipment for the Lease Term (provided no Event of Default has occurred) free from interference by any person claiming by, through, or under Lessor. The Equipment shall always remain personal property even though the Equipment may hereafter become attached or affixed to real property. Lessee agrees to give and record such notices and to take such other action at its own expense as may be necessary to prevent any third party (other than an assignee of Lessor or sublessees of Lessee to the extent permitted under Section 16 of this Lease) from acquiring or having the right under any circumstances to acquire any interest in the Equipment or this Lease.

**4. DISCLAIMER OF WARRANTIES**

LESSOR IS NOT THE MANUFACTURER OR SUPPLIER OF THE EQUIPMENT, NOR THE AGENT THEREOF, AND MAKES NO EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES AS TO ANY MATTER WHATSOEVER, INCLUDING WITHOUT LIMITATION, THE MERCHANTABILITY OF THE EQUIPMENT, ITS FITNESS FOR A PARTICULAR PURPOSE, ITS DESIGN OR CONDITION, ITS CAPACITY OR DURABILITY, THE QUALITY OF THE MATERIAL OR WORKMANSHIP IN THE MANUFACTURE OR ASSEMBLY OF THE EQUIPMENT, OR THE CONFORMITY OF THE EQUIPMENT TO THE PROVISIONS AND SPECIFICATIONS OF ANY PURCHASE ORDER RELATING THERETO, OR PATENT INFRINGEMENTS, AND LESSOR HEREBY DISCLAIMS ANY SUCH WARRANTY. LESSOR IS NOT RESPONSIBLE FOR ANY REPAIRS OR SERVICE TO THE EQUIPMENT, DEFECTS THEREIN OR FAILURES IN THE OPERATION THEREOF. Lessee has made the selection of each item of Equipment and the manufacturer and/or supplier thereof based on its own judgment and expressly disclaims any reliance upon any statements or representations made by Lessor. For so long as no Event of Default (or event or condition which, with the passage of time or giving of notice, or both, would become such an Event of Default) has occurred and is continuing, Lessee shall be the beneficiary of, and shall be entitled to, all rights under any applicable manufacturer's or vendor's warranties with respect to the Equipment, to the extent permitted by law.

If the Equipment is not delivered, is not properly installed, does not operate as warranted, becomes obsolete, or is unsatisfactory for any reason whatsoever, Lessee shall make all claims on account thereof solely against the manufacturer or supplier and not against Lessor, and Lessee shall nevertheless pay all rentals and other sums payable hereunder. Lessee acknowledges that neither the manufacturer or supplier of the Equipment, nor any sales representative or agent thereof, is an agent of Lessor, and no agreement or representation as to the Equipment or any other matter by any such sales representative or agent of the manufacturer or supplier shall in any way affect Lessee's obligations hereunder.

**5. REPRESENTATIONS, WARRANTIES AND COVENANTS**

Lessee represents and warrants to and covenants with Lessor that:

(a) Lessee has the form of business organization indicated above and is duly organized and existing in good standing under the laws of the state listed in the caption of this Master Lease and is duly qualified to do business wherever necessary to carry on its present business and operations and to own its property; (b) this Lease has been duly authorized by all necessary action on the part of Lessee consistent with its form of organization, does not require any further shareholder or partner approval, does not require the approval of, or the giving of notice to, any federal, state, local or foreign governmental authority and does not contravene any law binding on Lessee or contravene any certificate or articles of incorporation or by-laws or partnership certificate or agreement, or any agreement, indenture, or other instrument to which Lessee is a party or by which it may be bound;

(c) this Lease has been duly executed and delivered by authorized officers or partners of Lessee and constitutes a legal, valid and binding obligation of Lessee enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency or similar laws now or hereafter in effect affecting the rights of creditors generally; (d) Lessee has not and will not, directly or indirectly, create, incur or permit to exist any lien, encumbrance, mortgage, pledge, attachment or security interest on or with respect to the Equipment or this Lease (except those of persons claiming by, through or under Lessor or sublessees of Lessee to the extent permitted under Section 16 of this Lease); (e) the Equipment will be used solely in the conduct of Lessee's business; (f) as of the date hereof, there are no pending or threatened actions or proceedings before any court or administrative agency which materially adversely affect Lessee's financial condition or operations, and all credit, financial and other information provided by Lessee or at Lessee's direction is, and all such information hereafter furnished will be, true, correct and complete in all material respects; and (g) Lessor has not selected, manufactured or supplied the Equipment to Lessee and has acquired any Equipment subject hereto solely in connection with this Lease and Lessee has received and approved the terms of any purchase order or agreement with respect to the Equipment.

#### 6. INDEMNITY

Lessee hereby agrees to indemnify and hold safe and harmless, and covenants to defend, Lessor, its employees, servants and agents from and against: (a) any and all liabilities, losses, damages, claims and expenses (including reasonable legal expenses) arising out of the manufacture, purchase, shipment and delivery of the Equipment to Lessee, acceptance or rejection, ownership, titling, registration, leasing, possession, operation, use, return or other disposition of the Equipment, including, without limitation, any liabilities that may arise from patent or latent defects in the Equipment (whether or not discoverable by Lessee), any claims based on absolute tort liability or warranty and any claims based on patent, trademark or copyright infringement; (b) any and all loss or damage of or to the Equipment; and (c) any obligation or liability to the manufacturer or any supplier of the Equipment arising under any purchase orders issued by or assigned to Lessor.

#### 7. TAXES AND OTHER CHARGES

Lessee agrees to comply with all laws, regulations and governmental orders related to this Lease and to the Equipment and its use or possession, and to pay when due, and to defend and indemnify Lessor against liability for all license fees, assessments, and sales, use, property, excise, privilege and other taxes (including any related interest or penalties) or other charges or fees now or hereafter imposed by any governmental body or agency upon any Equipment, or with respect to the manufacturing, ordering, shipment, purchase, ownership, delivery, installation, leasing, operation, possession, use, return, or other disposition thereof or the rentals hereunder (other than taxes on or measured solely by the net income of Lessor). Any fees, taxes or other lawful charges paid by Lessor upon failure of Lessee to make such payments shall at Lessor's option become immediately due from Lessee to Lessor.

If any Lease Schedule is denominated as a "True Lease Schedule", then, with respect to the Equipment set forth on such True Lease Schedule, Lessee hereby covenants and agrees that Lessor shall be entitled to the following tax benefits (the "Tax Benefits"). Lessor will be entitled to cost recovery deductions under Section 168 of the Internal Revenue Code of 1986, as amended (the "Code"), using a 200% declining balance method of depreciation switching to the straight line method for the first taxable year for which such method will yield larger depreciation deductions, and assuming a half-year convention and zero salvage value, for the applicable recovery period for such Equipment as set forth in the True Lease Schedule with respect to such Equipment. Lessee further acknowledges and agrees that Lessor has entered into such True Lease Schedule on the assumption that Lessor will be taxed throughout the Lease Term of the True Lease Schedule at Lessor's federal corporate income tax rate existing on the date of such Lease Schedule (the "Assumed Tax Rate"). If, for any reason whatsoever, there shall be a loss, disallowance, recapture or delay in claiming all or any portion of the Tax Benefits with respect to the Equipment, or there shall be included in Lessor's gross income for Federal, state or local income tax purposes any amount on account of any addition, modification or improvement to or in respect of any of the Equipment made or paid for by Lessee, (any loss, disallowance, recapture, delay or inclusion being herein called a "Tax Loss"), then thirty (30) days after written notice to Lessee by Lessor that a Tax Loss has occurred, Lessee shall pay Lessor a lump sum amount which, after deduction of all taxes required to be paid by Lessor with respect to the receipt of such amount, will provide Lessor with an amount necessary to maintain Lessor's after-tax economic yield and overall net after-tax cash flows at the same level that would have been available if such Tax Loss had not occurred, plus any interest, penalties or additions to tax which may be imposed in connection with such Tax Loss. In lieu of paying such Tax Loss in a lump sum, Lessor may require, or upon Lessee's request, may agree, in Lessor's sole discretion, that such Tax Loss shall be paid in equal periodic payments over the applicable remaining Lease Term with respect to such Equipment with each Rental Payment due and payable with respect to such Equipment. A Tax Loss shall conclusively be deemed to have occurred if either (a) a deficiency shall have been proposed by the Internal Revenue Service or other taxing authority having jurisdiction, or (b) tax counsel for Lessor has rendered an opinion to Lessor that such Tax Loss has so occurred. The foregoing indemnities and covenants set forth in Sections 6 and 7 of this Master Lease shall continue in full force and effect and shall survive the expiration or earlier termination of the Lease.

#### 8. DEFAULT

Lessee shall be in default of this Lease upon the occurrence of any one or more of the following events (each an "Event of Default"):

(a) Lessee shall fail to make any payment, of rent or otherwise, under any Lease within 30 days of the date when due; or (b) Lessee shall fail to obtain or maintain any of the insurance required under any Lease; or (c) Lessee shall fail to perform or observe any covenant, condition or agreement under any Lease, and such failure continues for 30 days after notice thereof to Lessee, unless, such failure cannot be cured within 30 days and Lessee is diligently pursuing by appropriate proceedings (as determined by Lessor in its sole discretion) a cure, provided, however, that such failure must be cured within 60 days after notice thereof to Lessee; or (d) a payment default by Lessee shall occur with respect to any indebtedness or obligation of Lessee to Lessor or any affiliated person, firm or entity controlling, controlled by or under common control with Lessor, under any loan, note, security agreement, lease, guaranty, title retention or conditional sales agreement or any other instrument or agreement evidencing such indebtedness with Lessor or such other affiliated person, firm or entity affiliated with Lessor; or (e) any representation or warranty made by Lessee herein or in any certificate, agreement, statement or document hereto or hereafter furnished to Lessor in connection herewith, including without limitation, any financial information disclosed to Lessor, shall prove to be false or incorrect in any material respect; or (f) (1) a court having jurisdiction with respect to the Equipment or Lessee shall enter a decree or order for relief in respect of Lessee in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or, under any such law, (i) appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official of the Lessee or for any substantial part of its property, or (ii) ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (2) the Lessee shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or, under any such law, (i) consent to the entry of an order for relief in an involuntary case under any such law, (ii) consent to the appointment or taking possession by a

receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Lessee or for any substantial part of its property, or (iii) make any general assignment for the benefit of creditors; or (g) Lessee shall default in the payment of principal of or interest on any indebtedness of Lessee for borrowed money the aggregate outstanding principal balance of which shall then exceed \$10 million, and such indebtedness becomes due prior to its stated maturity by acceleration; or (h) Lessee shall default on the happening of any event other than nonpayment of principal or interest shall occur under any indenture, agreement, or other instrument under which any indebtedness of Lessee for borrowed money the aggregate outstanding balance of which shall then exceed \$10 million is outstanding, and such indebtedness becomes due prior to its stated maturity by acceleration; or (i) Lessee shall terminate its existence by merger, consolidation, sale of substantially all of its assets or otherwise, unless: (i) the successor corporation is a publicly held corporation which has been rated at least A2 or its equivalent by Moody's Investors Service, Inc. or at least A or its equivalent by Standard and Poor's Corporation, (ii) the due and punctual performance of all of Lessee's obligations hereunder are expressly assumed by the successor corporation, formed by or surviving any such merger or consolidation or to which such sale shall have been made, as fully and effectually as if such successor corporation had been an original party to this Lease, and (iii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing; or (j) Lessee or Lessee's permitted successor pursuant to preceding Section 8(i), shall cease to be subject to the reporting requirements of the Securities Exchange Act of 1934; or (k) Lessor shall determine, in the good faith exercise of its discretion, that Lessee's ability to make any payment hereunder promptly when due or otherwise comply with the terms of this Lease is materially impaired. Lessee shall promptly notify Lessor of the occurrence of any Event of Default or the occurrence or existence of any event or condition which, upon the giving of notice of lapse of time, or both, may become an Event of Default.

## 9. REMEDIES

Upon the occurrence of any Event of Default, Lessor may, at its sole option and discretion, exercise one or more of the following remedies with respect to any or all of the Equipment: (a) cause Lessee to promptly return, at Lessee's expense, any or all Equipment to such location as Lessor may designate in accordance with the terms of Section 18 of this Master Lease, or Lessor, at its option, may enter upon the premises where the Equipment is located and take immediate possession of and remove the same by summary proceedings or otherwise, all without liability to Lessor for or by reason of damage to property or such entry or taking possession except for Lessor's gross negligence or willful misconduct; (b) sell any or all Equipment at public or private sale or otherwise dispose of, hold, use, operate, lease to others or keep idle the Equipment, all as Lessor in its sole discretion may determine and all free and clear of any rights of Lessee; (c) remedy such default, including making repairs or modifications to the Equipment, for the account and expense of Lessee, and Lessee agrees to reimburse Lessor for all of Lessor's costs and expenses; (d) by written notice to Lessee, terminate the Lease with respect to any or all Lease Schedules and the Equipment subject thereto, as such notice shall specify, and, with respect to such terminated Lease Schedules and Equipment, declare immediately due and payable and recover from Lessee, as liquidated damages for loss of Lessor's bargain and not as a penalty, an amount equal to the Stipulated Loss Value, calculated as of the next following Rental Payment Date; (e) apply any deposit or other cash collateral or sale or remarketing proceeds of the Equipment at any time to reduce any amounts due to Lessor, and (f) exercise any other right or remedy which may be available to Lessor under applicable law, or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof, including reasonable attorneys' fees and court costs. No remedy referred to in this Section 9 shall be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to Lessor at law or in equity. Notwithstanding the foregoing, for so long as any permitted sublessee (pursuant to Section 16 of this Lease) is not in default under the terms of the sublease, no exercise by Lessor of any remedy referenced in this Section 9 shall disturb the possessory rights of any sublessee with respect to the Equipment.

The exercise or pursuit by Lessor of any one or more of such remedies shall not preclude the simultaneous or later exercise or pursuit by Lessor of any or all such other remedies, and all remedies hereunder shall survive termination of this Lease. At any sale of the Equipment pursuant to this Section 9, Lessor may bid for the Equipment. Notice required, if any, of any sale or other disposition hereunder by Lessor shall be satisfied by the mailing of such notice to Lessee at least seven (7) days prior to such sale or other disposition. In the event Lessor takes possession and disposes of the Equipment, the proceeds of any such disposition shall be applied in the following order: (1) to all of Lessor's costs, charges and expenses incurred in taking, removing, holding, repairing and selling or leasing the Equipment; (2) to the extent not previously paid by Lessee, to pay Lessor for any damages then remaining unpaid hereunder; (3) to reimburse Lessee for any sums previously paid by Lessee as damages hereunder; and (4) the balance, if any, shall be retained by Lessor. A termination shall occur only upon written notice by Lessor and only with respect to such Equipment as Lessor shall specify in such notice. Termination under this Section 9 shall not affect Lessee's duty to perform Lessee's obligations hereunder to Lessor in full. Lessee agrees to reimburse Lessor on demand for any and all costs and expenses incurred by Lessor in enforcing its rights and remedies hereunder following the occurrence of an Event of Default, including, without limitation, reasonable attorney's fees, and the costs of repossession, storage, insuring, reletting, selling and disposing of any and all Equipment. Upon Lessor's receipt of all amounts to which Lessor is entitled under this Section 9, the Equipment shall become Lessee's property and Lessor shall deliver to Lessee a bill of sale conveying title to the Equipment to Lessee, AS IS, WHERE IS and without representations or warranties.

The term "Stipulated Loss Value" with respect to any item of Equipment shall mean the Stipulated Loss Value as set forth in any Schedule of Stipulated Loss Values attached to and made a part of the applicable Lease Schedule. If there is no such Schedule of Stipulated Loss Values, then the Stipulated Loss Value with respect to any item of Equipment on any Rental Payment Date during the Lease Term shall be an amount equal to the sum of: (a) all Rental Payments and other amounts then due and owing to Lessor under the Lease, together with all accrued interest and late charges thereon calculated through and including the date of payment; plus (b) the net present value of: (i) all Rental Payments then remaining unpaid for the Lease Term, plus (ii) the amount of any purchase obligation with respect to the Equipment. If there is no such obligation, then the fair market value of the Equipment at the end of such term, as estimated by Lessor in its sole discretion, all discounted to net present value at a discount rate equal to the 1-year Treasury Constant Maturity rate as published in the Selected Interest Rates table of the Federal Reserve statistical release H.15(519) for the week ending immediately prior to the original Acceptance Date for such Equipment.

## 10. ADDITIONAL SECURITY

For so long as any obligations of Lessee shall remain outstanding under any Lease, Lessee hereby grants to Lessor a security interest in all of Lessee's rights in and to Equipment subject to such Lease from time to time, to secure the prompt payment and performance when due (by reason of acceleration or otherwise) of each and every indebtedness, obligation or liability of Lessee, or any affiliated person, firm, or entity controlling, controlled by, or under common control with Lessee, owing to Lessor, whether now existing or hereafter arising, including but not limited to all of such obligations under or in respect of any Lease. The extent to which Lessor shall have a purchase money security interest in any item of Equipment under a Lease which is deemed to create a security interest under Section 1-201(37) of the Uniform Commercial Code shall be determined by

reference to the Acquisition Cost of such item financed by Lessor. In order more fully to secure its rental payments and all other obligations to Lessor hereunder, Lessee hereby grants to Lessor a security interest in any deposit of Lessee to Lessor under Section 3(d) of any Lease Schedule hereto. Such security deposit shall not bear interest, may be commingled with other funds of Lessor and shall be immediately restored by Lessee if applied for Section 9. Upon expiration of the term of this Lease and satisfaction of all of Lessee's obligations, the security deposit shall be returned to Lessee. The term "Lessor" as used in this Section 10 shall include any affiliated person, firm or entity controlling, controlled by or under common control with Lessor.

#### 11. NOTICES

Any notices or demands required or permitted to be given under this Lease shall be given in writing and by regular mail and shall become effective when deposited in the United States mail with postage prepaid to Lessor to the attention of Customer Accounts, and to Lessee at the address set forth above, or to such other address as the party to receive notice hereafter designates by such written notice.

#### 12. USE; MAINTENANCE; INSPECTION; LOSS AND DAMAGE

During the Lease Term for each item of Equipment, Lessee shall, unless Lessor shall otherwise consent in writing: (a) permit each item of Equipment to be used only within the continental United States by qualified personnel solely for business purposes and the purpose for which it was designed and shall, at its sole expense, service, repair, overhaul and maintain each item of Equipment in the same condition as when received, ordinary wear and tear excepted, in good operating order, consistent with prudent industry practice (but, in no event less than the same extent to which Lessee maintains other similar equipment in the prudent management of its assets and properties) and in compliance with all applicable laws, ordinances, regulations, and conditions of all insurance policies required to be maintained by Lessee under the Lease and all manuals, orders, recommendations, instructions and other written requirements as to the repair and maintenance of such item of Equipment issued at any time by the vendor and/or manufacturer thereof; (b) maintain conspicuously on each item of Equipment such labels, plates, decals or other markings as Lessor may reasonably require, stating that Lessor is owner of such item of Equipment; (c) furnish to Lessor such information concerning the condition, location, use and operation of the Equipment as Lessor may request; (d) permit any person designated by Lessor to visit and inspect any item of Equipment and any records maintained in connection therewith, provided, however, that the failure of Lessor to inspect the Equipment or to inform Lessee of any noncompliance shall not relieve Lessee of any of its obligations hereunder; (e) if any item of Equipment does not comply with the requirements of this Lease, Lessee shall, within 30 days of written notice from Lessor, bring such Equipment into compliance; (f) not use any Equipment, nor allow the same to be used, for any unlawful purpose, nor in connection with any property or material that would subject the Lessor to any liability under any state or federal statute or regulation pertaining to the production, transport, storage, disposal or discharge of hazardous or toxic waste or materials; and (g) make no additions, alterations, modifications or improvements (collectively, "Improvements") to any item of Equipment that are not readily removable without causing material damage to such item of Equipment or which will cause the value, utility or useful life of such item of Equipment to materially decline. If any such Improvement is made and cannot be removed without causing material damage or decline in value, utility or useful life (a "Non-Severable Improvement"), then Lessee warrants that such Non-Severable Improvement shall immediately become Lessor's property upon being installed and shall be free and clear of all liens and encumbrances and shall become Equipment subject to all of the terms and conditions of the Lease. All such Improvements that are not Non-Severable Improvements shall be removed by Lessee prior to the return of the item of Equipment hereunder or such Improvements shall also become the sole and absolute property of Lessor without any further payment by Lessor to Lessee and shall be free and clear of all liens and encumbrances whatsoever. Lessee shall repair all damage to any item of Equipment caused by the removal of any Improvement so as to restore such item of Equipment to the same condition which existed prior to its installation and as required by this Lease.

Lessee hereby assumes all risk of loss, damage or destruction for whatever reason to the Equipment from and after the earlier of the date (i) on which the Equipment is ordered or (ii) Lessor pays the purchase price of the Equipment, and continuing until the Equipment has been returned to, and accepted by, Lessor in the condition required by Section 18 hereof upon the expiration of the Lease Term. If during the Lease Term any item of Equipment shall become lost, stolen, destroyed, damaged beyond repair or rendered permanently unfit for use for any reason, or in the event of any condemnation, confiscation, theft or seizure or requisition of title to or use of such item, Lessee shall immediately pay to Lessor an amount equal to the Stipulated Loss Value of such item, as of the next following Rental Payment Date.

#### 13. INSURANCE

Lessee shall procure and maintain insurance in such amounts and upon such terms and with such companies as Lessor may approve, during the entire Lease Term and until the Equipment has been returned to, and accepted by, Lessor in the condition required by Section 18 hereof, at Lessee's expense, provided that in no event shall such insurance be less than the following coverages and amounts: (a) Worker's Compensation and Employer's Liability Insurance, in the full statutory amounts provided by law; (b) Comprehensive General Liability Insurance including product/completed operations and contractual liability coverage, with minimum limits of \$1,000,000 each occurrence, and Combined Single Limit Body Injury and Property Damage, \$1,000,000 aggregate, where applicable; and (c) All Risk Physical Damage Insurance, including earthquake and flood, on each item of Equipment, in an amount not less than the greater of the Stipulated Loss Value of the Equipment or (if available) its full replacement value. Lessor will be included as an additional insured and loss payee as its interest may appear. Such policies shall be endorsed to provide that the coverage afforded to Lessor shall not be rescinded, impaired or invalidated by any act or neglect of Lessee. Lessee agrees to waive Lessee's right and its insurance carrier's rights of subrogation against Lessor for any and all loss or damage.

All policies shall be endorsed or contain a clause requiring the insurer to furnish Lessor with at least 30 days' prior written notice of any material change, cancellation or non-renewal of coverage. Upon execution of this Lease, Lessee shall furnish Lessor with a certificate of insurance or other evidence satisfactory to Lessor that such insurance coverage is in effect, provided, however, that Lessor shall be under no duty either to ascertain the existence of or to examine such insurance coverage or to advise Lessee in the event such insurance coverage should not comply with the requirements hereof. In case of failure of Lessee to procure or maintain insurance, Lessor may at its option obtain such insurance, the cost of which will be paid by the Lessee as additional rentals. Lessee hereby irrevocably appoints Lessor as Lessee's attorney-in-fact to file, settle or adjust, and receive payment of claims under any such insurance policy and to endorse Lessee's name on any checks, drafts or other instruments in payment of such claims. Lessee further agrees to give Lessor prompt notice of any damage to or loss of, the Equipment, or any part thereof.

#### 14. LIMITATION OF LIABILITY

Lessor shall have no liability in connection with or arising out of the ownership, leasing, furnishing, performance or use of the Equipment or any special, indirect, incidental or consequential damages of any character, including, without limitation, loss of use of production facilities or

equipment, loss of profits, property damage or lost production, whether suffered by Lessee or any third party.

#### 5. FURTHER ASSURANCES

Lessee shall promptly execute and deliver to Lessor such further documents and take such further action as Lessor may require in order to more effectively carry out the intent and purpose of this Lease. Lessee shall provide to Lessor, within 120 days after the close of each of Lessee's fiscal years, and, upon Lessor's request, within 45 days of the end of each quarter of Lessee's fiscal year, a copy of its financial statements prepared in accordance with generally accepted accounting principles and, in the case of annual financial statements, audited by independent certified public accountants, and in the case of quarterly financial statements certified by Lessee's chief financial officer. Lessee shall execute and deliver to Lessor upon Lessor's request such instruments and assurances as Lessor deems necessary for the confirmation, preservation or perfection of this Lease and Lessor's rights hereunder, including, without limitation, such corporate resolutions and opinions of counsel as Lessor may request from time to time, and all schedules, forms and other reports as may be required to satisfy obligations imposed by taxing authorities. In furtherance thereof, Lessor may file or record this Lease or a memorandum or a photocopy hereof (which for the purposes hereof shall be effective as a financing statement) so as to give notice to third parties, and Lessee hereby appoints Lessor as its attorney-in-fact to execute, sign, file and record UCC financing statements and other lien recordation documents with respect to the Equipment where Lessee fails or refuses to do so after Lessor's written request, and Lessee agrees to pay or reimburse Lessor for any filing, recording or stamp fees or taxes arising from any such filings.

#### 16. ASSIGNMENT

This Lease and all rights of Lessor hereunder shall be assignable by Lessor absolutely or as security, without notice to Lessee, subject to the rights of Lessee hereunder for the use and possession of the Equipment for so long as no Event of Default has occurred and is continuing hereunder. Any such assignment shall not relieve Lessor of its obligations hereunder unless specifically assumed by the assignee, and Lessee agrees it shall not assert any defense, rights of set-off or counterclaim against any assignee to which Lessor shall have assigned its rights and interests hereunder, nor hold or attempt to hold such assignee liable for any of Lessor's obligations hereunder. No such assignment shall materially increase Lessee's obligations hereunder. Lessee agrees, upon Lessor's written request, to provide to any such assignee an acknowledgement of such assignment confirming the terms, conditions, representations, warranties and covenants contained in this Lease.

LESSEE SHALL NOT ASSIGN OR DISPOSE OF ANY OF ITS RIGHTS OR OBLIGATIONS UNDER THIS LEASE OR ENTER INTO ANY SUBLEASE WITH RESPECT TO ANY OF THE EQUIPMENT WITHOUT THE EXPRESS PRIOR WRITTEN CONSENT OF LESSOR. Notwithstanding the foregoing, Lessee may sublease the Equipment as contemplated by the documents constituting this Lease and in the normal course of Lessee's business, without Lessor's prior consent, so long as each such sublease: (i) is assigned to Lessor, which assignment shall be deemed to have occurred and be effective immediately upon an agreement by Lessee to lease or rent the Equipment to a third party; and (ii) in any such case, the Lessee shall remain primarily liable for all of its obligations under the Lease, irrespective of such sublease. As long as the sublessee is not in default under the terms of the sublease, the sublessee shall have the right to quiet enjoyment of the Equipment.

#### 17. LESSEE'S OBLIGATION UNCONDITIONAL

This Lease is a net lease and Lessee hereby agrees that it shall not be entitled to any abatement of rents or of any other amounts payable hereunder by Lessee, and that its obligation to pay all rent and any other amounts owing hereunder shall be absolute and unconditional under all circumstances, including, without limitation, the following circumstances: (i) any claim by Lessee to any right of set-off, counterclaim, recoupment, defense or other right which Lessee may have against Lessor, any seller or manufacturer of any Equipment or anyone else for any reason whatsoever; (ii) the existence of any liens, encumbrances or rights of others whatsoever with respect to any Equipment, whether or not resulting from claims against Lessor not related to the ownership of such Equipment; or (iii) any other event or circumstances whatsoever. Each Rent Payment or other amount paid by Lessee hereunder shall be final and Lessee will not seek to recover all or any part of such payment from Lessor for any reason whatsoever.

#### 18. RETURN OF EQUIPMENT

Upon the expiration or earlier termination of the Lease Term with respect to any item of Equipment, and provided that Lessee has not validly exercised any purchase option with respect thereto, Lessee shall: (a) return the Equipment to a location and in the manner designated by the Lessor within the continental United States, including, as reasonably required by Lessor, securing arrangements for the disassembly and packing for shipment by an authorized representative of the manufacturer of the Equipment, shipment with all parts and pieces on a carrier designated or approved by Lessor, and then reassembly (including, if necessary, repair and overhaul) by such representative at the return location in the condition the Equipment is required to be maintained by the Lease and in such condition as will make the Equipment immediately able to perform all functions for which the Equipment was originally designed (or as upgraded during the Lease Term), and immediately qualified for the manufacturer's (or other authorized servicing representative's) then-available service contract or warranty; (b) cause the Equipment to qualify for all applicable licenses or permits necessary for its operation for its intended purpose and to comply with all specifications and requirements of applicable federal, state and local laws, regulations and ordinances; (c) upon Lessor's request, provide suitable storage, acceptable to Lessor, for the Equipment for a period not to exceed 180 days from the date of return; (d) cooperate with Lessor in attempting to remarket the Equipment, including display and demonstration of the Equipment to prospective purchasers or tenants, and allowing Lessor to conduct any private or public sale or auction of the Equipment on Lessee's premises. All costs incurred in connection with any of the foregoing shall be the sole responsibility of the Lessee. During any period of time from the expiration or earlier termination of the Lease until the Equipment is returned in accordance with the provisions hereof or until Lessor has been paid the applicable purchase option price if any applicable purchase option is exercised, Lessee agrees to pay to Lessor additional per diem rent ("Holdover Rent"), payable promptly on demand in an amount equal to 125% of the highest monthly Rental Payment payable during the Lease Term divided by 30, provided, however, that nothing contained herein and no payment of Holdover Rent hereunder shall relieve Lessee of its obligation to return the Equipment upon the expiration or earlier termination of the Lease.

#### 19. MISCELLANEOUS

THE LEASE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES CONCERNING THE LEASE OF THE EQUIPMENT AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. LESSEE ACKNOWLEDGES AND CERTIFIES THAT NO SUCH ORAL AGREEMENTS EXIST. The Lease may not be amended, nor may any rights under the Lease be waived, except by an instrument in writing signed by the party charged with such amendment or waiver. The term "Lessee" as used in the Lease shall mean and include any and all Lessees who sign below, each of whom shall be jointly and severally liable under the Lease. This Master Lease will not be binding on Lessor until accepted and executed by Lessor, notice of which is hereby waived by Lessee. Any waiver of the terms hereof

shall be effective only in the specific instance and for the specific purpose given. Time is of the essence in the payment and performance of all of Lessee's obligations under the Lease. The captions in this Lease are for convenience only and shall not define or limit any of the terms hereof.

**ENFORCEABILITY AND GOVERNING LAW:**

Any provisions of this Lease which are unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof, and any such unenforceability in any jurisdiction shall not render unenforceable such provisions in any other jurisdiction. To the extent permitted by applicable law, Lessee hereby waives; (a) any provisions of law which render any provision hereof unenforceable in any respect; (b) all rights and remedies under Rhode Island General Laws Sections 6A-2.1-508 through 522 or corresponding provisions of the Uniform Commercial Code article or division pertaining to personal property leasing in any jurisdiction in which enforcement of this Lease is sought.

THIS LEASE AND THE LEGAL RELATIONS OF THE PARTIES HERETO SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, WITHOUT REGARD TO PRINCIPLES REGARDING THE CHOICE OF LAW. LESSEE HEREBY CONSENTS AND SUBMITS TO THE JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS AND THE FEDERAL DISTRICT COURT FOR THE COMMONWEALTH OF MASSACHUSETTS FOR THE PURPOSES OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ITS OBLIGATIONS HEREUNDER, AND EXPRESSLY WAIVES ANY OBJECTIONS THAT IT MAY HAVE TO THE VENUE OF SUCH COURTS. LESSEE HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS LEASE. Any action by Lessee against Lessor for any cause of action relating to this Lease shall be brought within one year after any such cause of action first arises.

Executed and delivered by duly authorized representatives of the parties hereto as of the date set forth below.

DATED AS OF: OCTOBER 31, 1995

FLEET CREDIT CORPORATION

BAY STATE GAS COMPANY

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

LISA D. WARDLE

Assistant Vice President

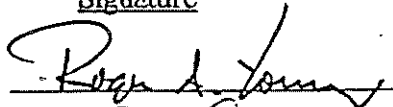
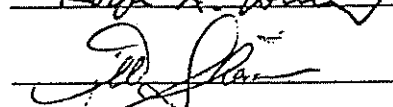
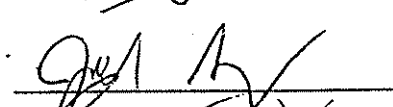
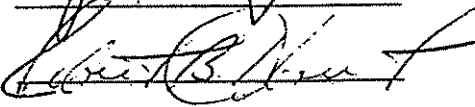
ROBERT A. HUBERT

Assistant Treasurer


This is counterpart No. 2 of a total of 2 counterparts.  
Only counterpart No. 1 shall be considered chattel paper  
for purposes of the Uniform Commercial Code and a  
security interest may be perfected only by possession of  
counterpart No. 1.

## CERTIFICATE OF INCUMBENCY

I, Charles H. Tenney III, do hereby certify that I am the duly elected and acting Clerk of Bay State Gas Company, a Massachusetts corporation (the "Company"), and I do further certify that (i) the following persons are now and have at all times since September 27, 1995, been duly elected, and are qualified and acting officers of the Company holding the offices set forth opposite their names below and that the signatures set forth opposite their names below are the genuine signature of such persons and (ii) that such persons are duly authorized by the Company to execute the Equipment Lease Agreement dated as of October 31, 1995, by and between Fleet Credit Corp. as lessor and Bay State Gas Company, as lessee, any amendments to said Equipment Lease Agreement, any Lease Schedules issued in connection with said Equipment Lease Agreement and any other documents related thereto.

| <u>Name</u>       | <u>Title</u>   | <u>Signature</u>   |
|-------------------|--|--|
| Roger A. Young    | President and Chief Executive Officer                |   |
| Thomas W. Sherman | Executive Vice President and Treasurer               |   |
| Joel L. Singer    | Executive Vice President and Chief Operating Officer |  |
| Robert B. Hevert  | Assistant Treasurer                                  |  |

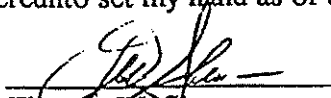
IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Company as of this 31<sup>st</sup> day of October, 1995.

  
Clerk

(Corporate Seal)

I, Thomas W. Sherman, Executive Vice President of the Company, do hereby certify that Charles H. Tenney III is the duly elected and acting Clerk of the Company and that the signature set forth above is his genuine signature.

IN, WITNESS WHEREOF, I have hereunto set my hand as of the 31<sup>st</sup> day of 10, 1995.

  
Thomas W. Sherman  
Executive Vice President

Fleet → BSG



Bay State Gas Company

### CERTIFICATE OF INCUMBENCY

The undersigned, the duly elected Clerk of Bay State Gas Company, hereby certifies that the person whose name appears below is duly elected officer of Bay State Gas Company, holding the title indicated opposite his respective name and that the signature appearing opposite his name is his true signature:

Robert B. Hevert

Assistant Treasurer

WITNESS my hand and the corporate seal of Bay State Gas Company this 15th day of August, 1995.

(SEAL)

Charles H. Tenney III  
Clerk

BAY STATE GAS COMPANY

C E R T I F I C A T E


I, Charles H. Tenney III, hereby certify that I am Clerk of Bay State Gas Company; and that the following is a true copy from the records of votes unanimously adopted at a meeting of the Directors of said Company duly called and held July 27, 1995, at which meeting a quorum was present and acting throughout; and that the said votes have not since been altered, amended or rescinded.

VOTED: That the form, terms and provisions of the Master Equipment Lease Agreement between this Company and Fleet Credit Corporation, a copy of which has been presented at this meeting, providing the terms under which equipment may be leased by this Company from Fleet Credit Corporation, be and the same hereby are in all respects approved; and that the President, any Vice President, the Treasurer and the Assistant Treasurer of this Company be and they are, and each of them singly is, hereby authorized to execute and deliver in the name and on behalf of this Company an instrument in the form of such Master Equipment Lease Agreement with such changes therein and additions thereto as shall be approved by the officer who executes the same; and further

That the President, any Vice President, the Treasurer and the Assistant Treasurer be and they are, and each of them singly is, hereby authorized to execute and deliver in the name and on behalf of this Company such amendments to said Master Equipment Lease Agreement as shall be deemed desirable by said officer or officers; and further

That the President, any Vice President, the Treasurer and the Assistant Treasurer, and any other persons employed by this Company who are so authorized by the President, any Vice President, the Treasurer or the Assistant Treasurer, be and they are, and each of them singly is, hereby authorized to execute and deliver such individual leases, documents and other instruments as they or any of them shall deem necessary or desirable in connection with the leasing of equipment under said Master Equipment Lease Agreement and to do all such other acts and things as the officer(s) of this Company shall deem necessary or desirable for the purpose of carrying out the intent of these votes.

WITNESS my hand and the corporate seal of Bay State Gas Company this 28th day of July, 1995.

  
Clerk



50 Kennedy Plaza  
Providence, Rhode Island 02903-2305

NAME CHANGE RIDER

This Name Change Rider (this "Rider") is entered into by and between Fleet Capital Corporation ("FCC") and Bay State Gas Company ("Customer").

Effective May 1, 1996, Fleet Credit Corporation changed its name to Fleet Capital Corporation. Customer and FCC hereby acknowledge and agree that any and all agreements, contracts, notes, instruments, certificates and other documents of any kind and nature previously executed by and/or in favor of Fleet Credit Corporation, are hereby amended so that any references to Fleet Credit Corporation are changed to Fleet Capital Corporation. Except as modified hereby, all terms and conditions of the aforementioned agreements, contracts, notes instruments, certificates and other documents shall remain in full force and effect and are hereby ratified and affirmed.

Dated as of: May 8, 1996

FLEET CAPITAL CORPORATION

BY: John P. Beatty

NAME: JOHN P. BEATTY

TITLE: AVP

BAY STATE GAS COMPANY

BY: Robert B. Hevert

NAME: Robert B. Hevert

TITLE: Assistant Treasurer

BAY STATE GAS COMPANY

C E R T I F I C A T E

I, Charles H. Tenney III, hereby certify that I am Clerk of Bay State Gas Company; and that the following is a true copy from the records of votes unanimously adopted at a meeting of the Directors of said Company duly called and held October 26, 1995, at which meeting a quorum was present and acting throughout; and that the said votes have not since been altered, amended or rescinded.

VOTED: That the form, terms and provisions of the Equipment Lease Agreement between this Company and Fleet Credit Corporation, a copy of which has been presented at this meeting, providing the terms under which equipment may be sold and leased back by this Company from Fleet Credit Corporation, be and the same hereby are in all respects approved; and that the President, any Vice President, the Treasurer and the Assistant Treasurer of this Company be and they are, and each of them singly is, hereby authorized to execute and deliver in the name and on behalf of this Company an instrument in the form of such Equipment Lease Agreement with such changes therein and additions thereto as shall be approved by the officer who executes the same; and further

That the President, any Vice President, the Treasurer and the Assistant Treasurer be and they are, and each of them singly is, hereby authorized to execute and deliver in the name and on behalf of this Company such amendments to said Equipment Lease Agreement as shall be deemed desirable by said officer or officers; and further

That the President, any Vice President, the Treasurer and the Assistant Treasurer, and any other persons employed by this Company who are so authorized by the President, any Vice President, the Treasurer or the Assistant Treasurer, be and they are, and each of them singly is, hereby authorized to execute and deliver such individual leases, documents and other instruments as they or any of them shall deem necessary or desirable in connection with the sale and leasing of equipment under said Equipment Lease Agreement and to do all such other acts and things as the officer(s) of this Company shall deem necessary or desirable for the purpose of carrying out the intent of these votes.

WITNESS my hand and the corporate seal of Bay State Gas Company this 27th day of October, 1995.

  
Clerk

BAY STATE GAS COMPANY  
CERTIFICATE

I, Charles H. Tenney III, Clerk of Bay State Gas Company, hereby certify that the following persons are the Officers and Directors of said Company as of the date hereof, holding the respective offices set forth opposite their names:

| <u>Position</u>                                       | <u>Name</u>             |
|---|-------------------------|
| Chairman of the Board of Directors                    | Charles H. Tenney II    |
| President, CEO and Director                           | Roger A. Young          |
| Executive Vice President, CFO, Treasurer and Director | Thomas W. Sherman       |
| Executive Vice President, COO and Director            | Joel L. Singer          |
| Senior Vice President                                 | Dwight G. Curley        |
| Vice President  | James A. Burke          |
| Vice President  | John F. Doucette        |
| Vice President  | Philip W. Kallaughier   |
| Vice President  | Thomas A. Sacco         |
| Vice President  | James D. Simpson        |
| Vice President  | John R. Snow            |
| Controller  | Stephen J. Curran       |
| Assistant Treasurer                                   | Robert B. Hevert        |
| Clerk   | Charles H. Tenney III   |
| Assistant Clerk                                       | William D. MacGillivray |
| Master Gas Fitter                                     | Francis X. Corkery      |
| Master Plumber  | Francis X. Corkery      |
| Director  | *Lawrence J. Finnegan   |
| Director  | Douglas W. Hawes        |
| Director  | Walter C. Ivancevic     |
| Director  | #John H. Larson         |
| Director  | *Jack E. McGregor       |
| Director  | #Daniel J. Murphy III   |
| Director  | ##George W. Sarney      |

# Member of the Compensation Committee

\* Member of the Audit Committee

WITNESS my hand and the corporate seal of Bay State Gas Company this 10th day of October, 1995.

Charles H. Tenney III  
Clerk

## FLEET CREDIT CORPORATION

## SELF INSURANCE AMENDMENT

50 Kennedy Plaza  
Providence, Rhode Island 02903-2305

This Amendment (the "Amendment") is attached to and made a part of that certain Master Equipment Lease Agreement No. 31854 dated as of October 31, 1995 (the "Master Lease"), by and between the undersigned parties.

Section 13 of the Master Lease is hereby amended by adding the following paragraph to the end thereof:

Notwithstanding anything contained herein to the contrary, and so long as no Event of Default has occurred and is continuing, Lessor and Lessee agree that Lessee shall have the right to self-insure the Equipment against the risks intended to be covered by the All Risk Physical Damage Insurance policy required pursuant to Section 13(c) above ("Property Insurance"), provided, however, that upon the occurrence of an Event of Default hereunder, or if Lessor shall in its sole discretion hereafter deem itself insecure with respect to Lessee's right to self-insure, then Lessee agrees, upon receipt of notice from Lessor, to obtain Property Insurance complying with the terms of Section 13(c) above.

*and in  
guidance  
of 9/2/95  
PC*

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Master Lease. Except as specifically set forth herein, all of the terms and conditions of the Master Lease shall remain in full force and effect and are hereby ratified and affirmed. To the extent that the provisions of this Amendment conflict with any provisions contained in the Master Lease, the provisions of this Amendment shall control.

Dated as of: October 31, 1995

FLEET CREDIT CORPORATION

By: [Signature]  
Name: LISA D. WARDLE

Title: Assistant Vice President

BAY STATE GAS COMPANY

By: [Signature]

Name: LESTER A. ADAMS

Title: Assistant Treasurer

This is counterpart No. 1 of a total of 2 counterparts.  
Only counterpart No. 1 shall be considered chattel paper  
for purposes of the Uniform Commercial Code and a  
security interest may be perfected only by possession of  
counterpart No. 1.



Bay State Gas Company

November 10, 1998

Mr. Robert D. Lanigan  
Senior Vice President  
Fleet Bank  
Mail Stop: MA OF D07J  
One Federal Street  
Boston, MA 02110

Re: Master Equipment Lease Agreement No. 31946 with Fleet Credit Corporation dated  
as of October 31, 1995.

Dear Mr. Lanigan:

Bay State Gas Company ("Bay State") has entered into an Agreement and Plan of Merger with NIPSCO Industries, Inc. ("Nipsco") pursuant to which Bay State will be merged (the "Merger") with and into a subsidiary of Nipsco. Bay State hereby requests that Fleet Bank consent to and approve the assignment of the rights and obligations of Bay State under the above-referenced agreement to the surviving company by operation of the Merger, with the agreement to continue in full force and effect on the same terms as prior to the Merger.

Please indicate your consent and approval by signing this letter and the additional copy included herewith and returning one executed copy to my attention at the address indicated above. If you have any questions with regard to this matter, please feel free to contact me at (508) 836-7391. Thank you for your prompt attention to this matter.

Very truly yours,

Jeannette M. Keane  
Treasury Manager

Agreed and Accepted:  
Fleet Bank Capital Corporation

By:   
Name: Thomas J. Mahoney  
Title: Vice President  
Dated: \_\_\_\_\_, 1998

COPY  
original in  
Credit File



## GUARANTY

50 Kennedy Plaza  
Providence, Rhode Island 02903-2305

This Guaranty (this "Guaranty") is executed and delivered as of the date set forth below by the undersigned guarantor (the "Guarantor") in favor of Fleet Capital Corporation ("FCC"). FCC has and may, from time to time in the future, enter into agreements with Bay State Gas Company of 300 Friberg Parkway, Westborough, Massachusetts 01581 ("Obligor"). The term "Obligor," if defined to include more than one party, shall mean "Obligor and each of them" and this Guaranty shall secure payment of all of their respective Obligations (hereinafter defined) to FCC under the Agreements and Schedules identified on Exhibit A attached hereto. FCC is unwilling to enter into such agreements with Obligor, unless Guarantor absolutely and unconditionally guarantees to FCC the payment and performance of all obligations of Obligor at any time owing to FCC. With knowledge that FCC will enter into agreements with or extend financial accommodations to Obligor in reliance upon the existence of this Guaranty and the validity and enforceability of the obligations and liabilities of Guarantor to FCC contemplated hereby, Guarantor agrees with FCC as follows:

1. **Guaranty.** Guarantor guarantees to FCC the prompt payment and/or performance of all indebtedness, obligations and liabilities of Obligor at any time owing to FCC, whether direct or indirect, matured or unmatured, primary or secondary, certain or contingent, or acquired by or otherwise created in favor of FCC under the Agreements and Schedules identified on Exhibit A attached hereto (the "Obligations"). This Guaranty is a guaranty of payment and not a guaranty of collection. Guarantor guarantees to FCC the punctual and faithful performance by Obligor of each and every Obligation, all without offset or deduction for any reason. Guarantor shall be deemed to be primarily liable on any agreement, document or instrument evidencing any Obligation and will for all purposes be deemed to be a party to any such writing whether or not the undersigned has specifically executed or endorsed such writing. The Obligations are evidenced by the agreements described in Exhibit A attached hereto. The information contained in Exhibit A is provided for informational tracking and regulatory reporting purposes and is not intended as: (a) a limitation of liability for Guarantor with respect to the Obligations for costs of enforcement, indemnification and/or other "nonprincipal" components thereof; (b) as purchase option amounts; or (c) as a commitment to provide financing by Lessor.

2. **Continuing Nature of Guaranty; Revocation.** This Guaranty is a continuing guaranty and shall in all respects be valid and enforceable without regard to the form or the amount of the Obligations in existence at any time. Guarantor may prospectively revoke this Guaranty by sending written notice, certified mail, return receipt requested, to FCC at the address for FCC specified above (the "Revocation Notice"). The revocation of this Guaranty shall not be effective with respect to any Obligation arising on or prior to the date occurring fifteen (15) days after FCC's receipt of the Revocation Notice (the "Revocation Date"), or to any Obligation arising at any time after the Revocation Date if such Obligation arises as the result of a commitment made by FCC to Obligor on or prior to the Revocation Date.

3. **Absolute, Unconditional, Joint and Several Nature of Guaranty.** The obligations of Guarantor hereunder are absolute and unconditional, and shall be joint and several with each Guarantor executing this Guaranty and each other party that may be liable, directly or indirectly, for the payment or performance of any of the Obligations. If this Guaranty is executed by more than one party, the term "Guarantor" as used herein shall mean (unless the context otherwise requires) "the Guarantor and each of them" and each and every undertaking shall be their joint and several undertaking. If Obligor is a partnership, the obligations of Guarantor herein contained shall remain in full force and effect notwithstanding any changes in the individuals comprising the partnership, and the term "Obligor" shall include any altered or successive partnerships. Guarantor shall not be released from any obligations under or in respect of this Guaranty for any reason, nor shall such obligations be reduced, diminished or discharged for any reason, including:

- (a) **Modifications and Indulgences.** Any modifications, renewals, or alterations of any agreement, document or instrument relating to any Obligation, or any indulgences, adjustments, preferences, extensions or compromises made by FCC in favor of Obligor or Guarantor or any other party.
- (b) **Condition of Obligor or Guarantor.** Any insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or similar proceeding affecting Obligor or Guarantor; any sale, lease or other disposition of any of the assets of Obligor or Guarantor; any reorganization of, or change in the composition of the shareholders, partners or members of, Obligor or Guarantor; or any termination of, or other change in, the relationship between Obligor and Guarantor.
- (c) **Invalidity of Obligations or Other Agreements.** The invalidity, illegality or unenforceability of any Obligation for any reason whatsoever, including, but not limited to: the existence of valid defenses, counterclaims or off-sets to any Obligation; the violation of applicable usury or other laws by any Obligation; or the lack of authenticity or genuineness of any document or instrument relating to the Obligations. This Guaranty shall be in addition to any other guaranty or other security for the Obligations, and it shall not be prejudiced or rendered unenforceable by the invalidity or unenforceability of any such other guaranty or security.
- (d) **Release of Obligor.** Any complete or partial release of Obligor or any other party liable for any Obligation for any reason.
- (e) **Release and Care of Collateral; Status of Liens.** Any release, surrender, exchange, deterioration, waste, loss or impairment of any real or personal property transferred or assigned by any party as collateral securing payment of any Obligation (the "Collateral"), whether negligent or willful; the failure of FCC or any other party to exercise reasonable care in the preservation, protection, sale or other treatment of any of the Collateral; the failure of FCC to create or properly perfect any mortgage, pledge, transfer or assignment of any Collateral intended to be given by or for the benefit of the Obligor in connection with any Obligation (a "Lien"); the unenforceability of any Lien; the subordination of any Lien to any other lien or encumbrance; or the taking or accepting by FCC of any other security for, or assurance of payment of, any Obligation.
- (f) **Other Action or Inaction.** Any other action or inaction on the part of FCC, whether or not such action or inaction prejudices Guarantor or increases the likelihood that Guarantor will be required to pay or perform any Obligation pursuant to the terms hereof.

It is the obligation of Guarantor to discharge the Obligations when due, notwithstanding any occurrence, circumstance, event, action or omission whatsoever, whether or not particularly described herein. Guarantor is not entering into this Guaranty in reliance on the value or the availability of any of the Collateral. Guarantor acknowledges that Guarantor may be required to pay the Obligations, in full, without the assistance or support of any other party. Guarantor has not been induced to enter into this Guaranty on the basis that any party other than Obligor will be liable to perform any Obligations or that FCC will look to any other party to perform any Obligation. FCC may release, or settle with, the Obligor or any Guarantor or any other party liable, directly or indirectly, for the performance of any Obligation, all without affecting the liability of any other party to this Guaranty. To the extent that this Guaranty is secured by property of Guarantor, FCC shall not be obligated to release its security interest in such property until all applicable preference periods have passed with respect to payments of Obligations made to FCC.

4. **Default; Performance of Obligations.** If Obligor defaults in the payment or performance of any Obligation, if there exists any event or condition which, with notice and/or the passage of time, would constitute a default under any document, agreement or instrument evidencing

an Obligation, or if there is a liquidation, bankruptcy, assignment for the benefit of creditors or similar proceeding affecting the status, existence, assets or obligations of Obligor or any Guarantor or other party liable to FCC in respect of the Obligations, then the obligations of Guarantor hereunder shall, at the option of FCC, become immediately due and payable and Guarantor shall pay directly to FCC the sums which Obligor is obligated to pay to FCC, whether by acceleration or otherwise, and promptly perform all other Obligations. Guarantor shall be liable, as principal obligor and not as a surety or guarantor only, for all attorneys' fees and other costs and expenses incurred by FCC in connection with FCC's enforcement of this Guaranty, together with interest on all amounts recoverable under this Guaranty, compounded monthly in arrears, from the time such amounts become due and payable until the date of payment at the lesser of FCC's then current late charge rate of interest or the highest rate permitted by applicable law. If FCC is required to return any payment made to FCC by or on behalf of Obligor, whether as a result of Obligor's bankruptcy, reorganization or otherwise, Guarantor acknowledges that this Guaranty covers all such amounts, notwithstanding that the original of this Guaranty may have been returned to Guarantor and/or otherwise canceled.

5. **Waivers.** Guarantor waives:

- (a) **Action Against Others.** Any right to require FCC to: institute suit or exhaust remedies against Obligor or any other party liable for any Obligation; enforce FCC's rights in any of the Collateral or other security which is at any time given to secure any Obligation; enforce FCC's rights against any other Guarantor or any other party liable on any Obligation; join Obligor or any other party liable for any Obligation in any action seeking to enforce this Guaranty; or exhaust any other remedies available to FCC or resort to any other means of obtaining payment or performance of any Obligation.
- (b) **Notices.** Notice of the execution, delivery or acceptance by FCC, Obligor or any other party, of this Guaranty or any document, agreement or instrument evidencing any Obligation; notice of the amount of credit extended by FCC to Obligor at any time, whether primary or secondary; notice of modifications or extensions of any Obligation; notice of defaults, or other non-performance by Obligor in connection with any Obligation; notice of the transfer or disposition by FCC of any Obligation; notice of the repossession, sale or other disposition of any of the Collateral; notice of the acceptance of this Guaranty by FCC; demand and presentation for payment upon Obligor or any other party liable for any Obligation; protest, notice of intention to accelerate or notice of acceleration of any Obligation, notice of protest and diligence in bringing suit against Obligor or any other party; and any other action or inaction on the part of FCC in connection with this Guaranty or any Obligation.
- (c) **Subrogation.** Any right which Guarantor may at any time have against Obligor, or any other party liable for any Obligation, as a result of the performance by Guarantor of its obligations under this Guaranty, including, but not limited to contractual, statutory and common law rights of subrogation, reimbursement, indemnification, set-off or contribution, until all Obligations owing to FCC have been paid and performed in full.
- (d) **Suretyship Defenses.** Any defenses which Guarantor may have or assert against the enforcement of this Guaranty or any Obligation based upon suretyship principles or any impairment of Collateral.

6. **Representations and Warranties.** Guarantor represents and warrants to FCC that:

- (a) **Benefit.** Guarantor has received, or will receive, substantial benefit from the agreements and transactions giving rise to the Obligations and this Guaranty.
- (b) **No Representation by FCC.** Neither FCC nor any other party has made any representation, warranty or statement to Guarantor in order to induce Guarantor to execute this Guaranty.
- (c) **Access to Information.** Guarantor has adequate means to obtain continuing and sufficient information concerning the financial and business condition of the Obligor and other parties liable in respect of the Obligations.
- (d) **Financial Condition; Solvency.** As of the date hereof, and after giving effect to this Guaranty and the contingent obligations contained herein, Guarantor is solvent and has assets which, when fairly valued, exceed its liabilities.
- (e) **Binding Obligations.** This Guaranty and a certain Support Agreement (as such term is defined in Section 8 below) have been duly executed and delivered and constitutes the legal, valid and binding obligation of Guarantor enforceable against Guarantor and/or NiSource Inc., as the case may be, in accordance with their respective terms.
- (f) **Due Authorization, No Violation.** The execution, delivery and performance of this Guaranty and the Support Agreement have been duly authorized by all necessary action on the part of Guarantor and/or NiSource Inc., as the case may be, consistent with their respective form of organization; do not require any further shareholder, member or partner approval or the approval of any trustee or holders of any indebtedness or obligations of Guarantor or NiSource Inc. except such as have been duly obtained; do not require the approval of, or the giving notice to, any Federal, state, local or foreign governmental authority and do not contravene any law binding on Guarantor or NiSource Inc. or contravene any provision of, or constitute a default or result in the creation of lien under any certificate or articles of incorporation or organization or by-laws or partnership certificate or agreement, or any agreement, indenture, or other instrument to which Guarantor or NiSource Inc., as the case may be, is a party or by which it may be bound.
- (g) **Litigation.** There are no pending legal actions or proceedings to which Guarantor and/or NiSource Inc., as the case may be, is/are a party, and there are no other pending or threatened legal actions or proceedings affecting Guarantor and/or NiSource Inc., as the case may be, before any court, arbitrator or administrative agency, and there are no final judgments of record against Guarantor or NiSource Inc., which whether individually or in the aggregate would materially and/or adversely affect the financial condition of Guarantor and/or NiSource Inc., as the case may be, or the ability of Guarantor and/or NiSource Inc., as the case may be, to perform its obligations under this Guaranty and/or the Support Agreement. Further, Guarantor and/or NiSource Inc., as the case may be, is/are not in default under any material obligation for the payment of borrowed money, for the deferred purchase price of property, or for the payment of any rent which, either individually or in the aggregate, would have the same such effect.

7. **Subordination.** Guarantor further agrees that: (i) all present and future indebtedness of Obligor to Guarantor ("Subordinated Debt") shall be and hereby is subordinated to the payment of the Obligations; (ii) Guarantor shall not demand, nor accept from Obligor or any other person, any payment or transfer of property on account of the Subordinated Debt and shall not cancel, set-off or otherwise discharge any part of the Subordinated Debt; (iii) Guarantor contemporaneously herewith and from time to time hereafter shall on request deliver to FCC any and all documents, instruments, notes or certificates evidencing any such indebtedness, and shall execute such further agreements, endorsements, financing statements or other proper documents as FCC may request to further evidence the subordination of Subordinated Debt; and (iv) Guarantor hereby appoints FCC and each of its duly authorized officers as Guarantor's attorney to demand and specifically enforce the terms of this Section 7. Notwithstanding the foregoing, so long as there is no event of default under any agreement associated with the Obligations or the Subordinated Debt, Guarantor may receive and Obligor may pay (but not prepay) scheduled installment payments of principal and/or interest from Obligor strictly in accordance with the terms of the documents and instruments evidencing the Subordinated Debt, provided, however, that in no event may any Subordinated Debt be prepaid (whether or not permitted or contemplated by the terms of such documents or instruments) without the prior written consent of FCC. Upon the request of FCC, Guarantor shall deliver to FCC a certified statement of the outstanding Subordinated Debt, specifying in detail the time at which permitted payments were made, if any.

8. **Support Agreement.** The Guarantor further agrees that (i) the Support Agreement covers the obligations, liabilities and indebtedness of the Guarantor under this Guaranty and the Obligations of the Obligor and FCC is a beneficiary under the Support Agreement and is entitled to all of the rights, benefits, privileges and remedies provided a "Lender" thereunder, (ii) the Support Agreement shall remain in full force and effect for so long as any Obligations are outstanding and (iii) the Guarantor and/or NiSource, Inc. shall not terminate, amend, modify, alter, or change in any way whatsoever the Support Agreement with regard to any obligation, liabilities and indebtedness of the Guarantor under this Guaranty and/or any Obligations of the Obligor, and/or any of Guarantor's and/or NiSource, Inc.'s respective obligations or liabilities under the Support Agreement to FCC in connection therewith, without the prior written consent of FCC. For purposes of this Guaranty, the term "Support Agreement" shall mean that certain Support Agreement dated as of April 4, 1989, as amended as of May 15, 1989, December 10, 1990 and February 14, 1991, by and between Guarantor and NiSource, Inc.

9. **Governing Law; Miscellaneous.** THIS GUARANTY AND THE LEGAL RELATIONS OF THE PARTIES HERETO SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF RHODE ISLAND, WITHOUT REGARD TO PRINCIPLES REGARDING THE CHOICE OF LAW. GUARANTOR CONSENTS TO THE JURISDICTION AND VENUE OF RHODE ISLAND COURTS IN CONNECTION WITH FCC'S ENFORCEMENT OF ANY OBLIGATIONS UNDER OR IN RESPECT OF THIS GUARANTY. GUARANTOR HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS GUARANTY. Time is of the essence in the payment and performance of all Obligations and all of Guarantor's obligations and liabilities owing to FCC hereunder. This Guaranty shall not be deemed to create any right in any party except as provided herein and shall inure to the benefit of, and be binding upon, the successors and assigns of Guarantor and FCC. This Guaranty constitutes the entire agreement of Guarantor and FCC relative to the subject matter hereof, and there are no prior or contemporaneous understandings or agreements, whether oral or in writing, between the parties hereto with respect to the subject matter hereof. No subsequent modification of, or supplement to, this Guaranty shall be enforceable against any party hereto unless the same is in writing and is duly signed by an authorized officer or representative of the party against whom enforcement is sought. Upon the request of FCC, Guarantor shall deliver to FCC certified personal and/or business financial statements, and such other financial information as FCC may reasonably request. Guarantor agrees that FCC may, without the consent of, or notice to, Guarantor, assign all or any portion of its rights hereunder to any other party to which all or any portion of the Obligations are transferred, assigned or negotiated (an "Assignee"), and Guarantor shall execute and deliver to FCC upon FCC's request such further and additional documents, instruments and assurances as FCC deems necessary (a) in order to acknowledge and confirm for the benefit of FCC or any Assignee all of the terms and conditions this Guaranty and FCC's or Assignee's rights with respect thereto, and Guarantor's compliance with all of the terms and provisions hereof and (b) to preserve, protect and perfect FCC's or Assignee's right, title or interest hereunder and in any Collateral or other property securing any Obligations or any obligations of Guarantor owing to FCC or any Assignee, including without limitation, such UCC financing statements or amendments, corporate resolutions, certificates of compliance, notices of assignment or transfers of interests, and restatements and reaffirmations of Guarantor's obligations owing to FCC or any Assignee and its representations and warranties with respect thereto as of the dates requested by FCC from time to time.

The undersigned, pursuant to due corporate or partnership authority, as appropriate, has or have caused this Guaranty to be executed as of the date set forth below.

Dated as of: December 18, 2000

Witness/Attest/Notary Public:

Penny L. Kljajic  
Name: Penny L. Kljajic, Notary Public  
Address: 801 E. 86th Avenue  
Merrillville, IN 46410

CORPORATE GUARANTOR:

NiSource Capital Markets, Inc.

By: Francis P. Girot, Jr.  
Name: Francis P. Girot, Jr.  
Title: Vice President and Treasurer  
Taxpayer ID: 35-1762940

EXHIBIT A  
TO  
GUARANTY

Description of Agreements

| Master Equipment Lease Agreements #31946, dated as of July 24, 1995 and October 31, 1995   | Aggregate Balance** |
|--|---------------------|
| Lease Schedule #00004  | \$521,526           |
| Lease Schedule #00005  | \$81,673            |
| Lease Schedule #00008  | \$11,469            |
| Lease Schedule #00009  | \$108,432           |
| Lease Schedule #00010  | \$10,128            |
| Lease Schedule #00011  | \$38,614            |
| Lease Schedule #00012  | \$20,599            |
| Lease Schedule #00013<br>(Facility Lease Agreement, dated as of May 30, 1997)  | \$10,805,120        |
| Lease Schedule #00014  | \$758,480           |
| Lease Schedule #00015  | \$10,440            |
| Lease Schedule #00016  | \$19,448,640        |
| Lease Schedule #00017  | \$13,810            |
| Lease Schedule #00018  | \$4,237,270         |
| Lease Schedule #00019  | \$116,590           |
| Lease Schedule #00020  | \$55,820            |
| Lease Schedule #00022  | \$1,283,280         |
| Lease Schedule #00023  | \$603,400           |
| Anticipated Future Lease Schedules related to ERT (DOES NOT CONSTITUTE A COMMITMENT TO LEND OR ENTER INTO ANY SPECIFIC LEASE SCHEDULE) | ***\$31,000         |
| Total  | \$68,125,300        |
| *** NOT A COMMITMENT   |                     |

\*\*THESE AMOUNTS ARE THE MAXIMUM ACCELERATED BALANCE WHICH COULD BE PAYABLE V  
RESPECT TO THE RELATED AGREEMENT, BUT DO NOT INCLUDE OR LIMIT LIABILITY WITH RESPECT  
INDEMNIFICATION AMOUNTS OR OTHER NONPRINCIPAL OBLIGATIONS UNDER THE AGREEMENTS  
AMOUNTS DO NOT REPRESENT PURCHASE OPTIONS.

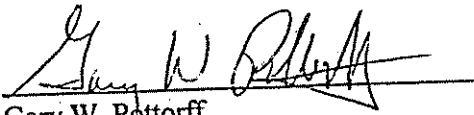
NISOURCE CAPITAL MARKETS, INC.

CERTIFICATE OF SECRETARY

The undersigned, Gary W. Pottorff, Secretary of NiSource Capital Markets, Inc., an Indiana corporation (the "Corporation"), does hereby certify on behalf of the Corporation that:

1. The undersigned is the duly elected and acting Secretary of the Corporation and has access to the minute books and corporate records of the Corporation.
2. Attached hereto as Exhibit A is a true, correct, and complete copy of the Articles of Incorporation of the Corporation, as amended, and as certified by the Indiana Secretary of State, and said Articles of Incorporation have not been amended, modified or rescinded in any manner and are in full force and effect as of the date hereof.
3. Attached hereto as Exhibit B is a true, correct and complete copy of the By-laws of the Corporation as amended through April 21, 1999, and said By-laws have not been amended, modified or rescinded in any manner and are in full force and effect as of the date hereof.
4. Attached hereto as Exhibit C are true, correct, and complete copies of resolutions adopted by the directors of the Corporation, and said resolutions have not been amended, modified or rescinded in any manner and are in full force and effect as of the date hereof.
5. The persons named on the attached Exhibit D are duly elected to and are validly acting in the offices listed opposite their names, and the specimen signatures set forth opposite their names is genuine.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 18th day of December, 2000.

  
\_\_\_\_\_  
Gary W. Pottorff  
Secretary

STATE OF INDIANA  
OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF INCORPORATION

OF

NIPSCO CAPITAL MARKETS, INC.

I, JOSEPH H. HOGSETT, Secretary of State of Indiana, hereby certify that Articles of Incorporation of the above corporation, have been presented to me at my office accompanied by the fees prescribed by law; that I have found such

Articles conform to law; all as prescribed by the provisions of the

Indiana Business Corporation Law,

as amended.

And, THEREFORE, I hereby issue to such Corporation this Certificate of Incorporation, and further certify that its corporate existence will begin March 10, 1989.

In witness whereof, I have hereunto set my  
hand and affixed the seal of the State of  
Indiana, at the City of Indianapolis, this  
Tenth day of March, 1989

JOSEPH H. HOGSETT, Secretary of State

By

Deputy



# ARTICLES OF INCORPORATION

State Form 4159 (R 5 / 1-88)

INSTRUCTIONS: Use 8 1/2 x 11 inch white paper for inserts.  
Filing requirements - Present original and one copy to the address in the upper right corner of this form.

Bat State Gas Company  
D.T.E. 05-27  
Attachment DTE-01-20 (d) - Revised  
Page 2 of 2  
896 2044

Provided by: EVAN BAYH  
Secretary of State  
Room 155, State House  
Indianapolis, Indiana 46204  
(317) 232-6576  
Indiana Code 23-1-21-2  
FILING FEE \$90.00

## ARTICLES OF INCORPORATION OF

(Indicate the appropriate act)

The undersigned desiring to form a corporation (herein after referred to as "Corporation") pursuant to the provisions of:

☒ Indiana Business Corporation Law

☐ Indiana Professional Corporation Act 1993

As amended, executes the following Articles of Incorporation:

APPROVED  
AND  
FILED

### ARTICLE I NAME

Name of Corporation

NIPSCO Capital Markets, Inc.

(The name must contain the word "Corporation," "Incorporated," "Limited," "Company" or an abbreviation of one of those words.)

### ARTICLE II REGISTERED OFFICE AND AGENT

(The street address of the corporation's initial registered office in Indiana and the name of its initial registered agent at that office is:)

Name of Agent

Edmund A. Schroer

Street Address of Registered Office

5265 Hohman Avenue, Hammond, Indiana

SECRETARY OF STATE OF INDIANA  
CERTIFICATE NO LONGER  
EFFECTIVE

JOSEPH L. HOGARTH  
JAN 10 1989  
46320

### ARTICLE III AUTHORIZED SHARES

Number of shares: 1,000 shares without par value

The total number of shares which the corporation is authorized to issue is at least one class of shares, is hereby authorized unlimited voting rights, and is entitled to receive net assets of the Corporation upon dissolution.

### ARTICLE IV INCORPORATORS

(The name(s) and address(es) of the incorporator(s) of the corporation:)

| NAME              | NUMBER and STREET OR BUILDING | CITY    | STATE | ZIP CODE |
|-------------------|-------------------------------|---------|-------|----------|
| Jerry M. Springer | 5265 Hohman Avenue            | Hammond | IN    | 46320    |

In Witness Whereof, the undersigned being all the incorporators of said corporation execute these Articles of Incorporation and verify, subject to penalties of perjury, that the statements contained herein are true,

this 9th day of March 19 89

Signature

*Jerry M. Springer*

Printed Name

Jerry M. Springer

Signature

Printed Name

Printed Name

Signature

This instrument was prepared by (Name)

Richard M. Schumacher

Address (Street, number, city and state)

ZIP Code

46325

**NOTICE OF CHANGE OF REGISTERED OFFICE  
OR REGISTERED AGENT (ALL CORPORATIONS)**

State Form 26276 (R5 / 4-95)

SUE ANNE GILROY  
SECRETARY OF STATE  
CORPORATIONS DIVISION  
302 W. Washington St., Rm. E018  
Indianapolis, IN 46204  
Telephone: (317) 232-6578

**INSTRUCTIONS:** Use 8 1/2" x 11" white paper for inserts.  
Present original and two (2) copies to address in upper right corner of this form.  
Please TYPE or PRINT.

Indiana Code 23-1-24-2 (for profit corporation)  
Indiana Code 23-17-6-2 (non-profit corporation)

**NO FILING FEE**

|  |   |
|--|---|
| Name of corporation<br><b>NIPSCO Capital Markets, Inc.</b>   | Date of incorporation<br><b>3/10/89</b> |
| Current registered office address (number and street, city, state, ZIP code)<br><b>5265 Hohman Avenue, Hammond, IN 46320</b> |   |
| New registered office address (number and street, city, state, ZIP code)<br><b>5265 Hohman Avenue, Hammond, IN 46320</b>     |   |
| Current registered agent (type or print name)<br><b>Edmund A. Schroer</b>  |   |
| New registered agent (type or print name)<br><b>Nina M. Rausch</b>   |   |

RECEIVED  
CORPORATIONS DIV.  
98 MAY 20 PM 12:02  
SUE ANNE GILROY

**STATEMENTS BY REGISTERED AGENT OR CORPORATION**

This statement is a representation that the new registered agent has consented to the appointment as registered agent, or statement attached signed by registered agent giving consent to act as the new registered agent.

After the change or changes are made, the street address of this corporation's registered agent and the address of its registered office will be identical.

The registered agent filing this statement of change of the registered agent's business street address has notified the represented corporation in writing of the change, and the notification was manually signed or signed in facsimile.

IN WITNESS WHEREOF, the undersigned executes this notice and verifies, subject to the penalties of perjury, that the statements contained herein are true, this 4th day of May, 19 98.

|                                    |   |
|------------------------------------|---|
| Signature<br><i>Nina M. Rausch</i> | Title<br><b>Nina M. Rausch, Secretary</b> |
|------------------------------------|---|



VIA CERTIFIED MAIL

617 - 434 - 1795

September 26, 2003

Bay State Gas Company  
300 Friberg Parkway  
Westborough, MA 01581  
ATTN: Jim Keshian

NiSource Capital Markets, Inc.  
801 East 86<sup>th</sup> Avenue  
Merrillville, IN 46410  
ATTN: Francis P. Girot, Jr.

NiSource Inc.  
f/k/a NIPSCO Industries, Inc.  
801 East 86<sup>th</sup> Avenue  
Merrillville, IN 46410  
ATTN: Vice President and Secretary

Gentlemen:

NOTICE OF ASSIGNMENT

Reference is hereby made to that certain Master Equipment Lease Agreement No. 31946 dated as of October 31, 1995 (the "Lease"), between FLEET CAPITAL CORPORATION ("Assignor"), and Bay State Gas Company, Inc. ("Lessee"); and that certain Guaranty dated as of December 18, 2000, (the "Guaranty"), by NiSource Capital Markets, Inc. ("Guarantor") in favor of Fleet Capital Corporation.

Assignor hereby gives Lessee notice that effective as of September 29, 2003 (the "Effective Date"), Assignor has assigned to Citizens Leasing Corporation ("Assignee"), whose offices are at One Citizens Plaza, Providence, Rhode Island 02903 all rights, title, interests and obligations of Assignor accruing on or after the Effective Date in and to (a) Lease Schedule Nos. 31946-00016 and 31946-00018 executed by Lessee and Assignor pursuant to the Lease, (b) solely to the extent incorporated in the Designated Schedule by reference, the Lease, and (c) solely to the extent related to the Designated Schedule, the Guaranty. As used in this Notice of Assignment, the term "Designated Schedule" shall mean, collectively, Lease Schedule Nos. 31946-00016 and 31946-00018 and, to the extent incorporated therein, the Lease.

From and after the date of this Notice of Assignment, all payments of rent and other sums now or hereafter becoming due pursuant to the Designated Schedules or with respect to the Equipment described on the Designated Schedules (the "Equipment") shall be paid to Assignor as fiscal agent for Assignee as directed in Assignor's invoices or, upon receipt of notice from Assignee of the termination of such fiscal agency, to Assignee as directed in Assignee's invoices.

In accordance with the terms of the Designated Schedule, Assignee and Assignor will regard Lessee as having represented, acknowledged and agreed to the following:

1. The Designated Schedule is in full force and effect, and has not been modified, altered or amended.
2. Lessee's obligations to make payments to Assignee are absolute and unconditional and not subject to any deduction, abatement, set-off, defense or counterclaim for any reason whatsoever.
3. Without the written consent of Assignee, Lessee shall not (a) modify, extend or in any manner alter the terms of the Designated Schedule; (b) pay any other sums becoming due under the terms of the Designated Schedule more than one month in advance; (c) accept Assignor's waiver of, or release from the performance of any obligations under the Designated Schedule.
4. Lessee is not currently in default under the Lease, nor has Lessee committed any act which with the giving of notice or the passage of time, or both, would be an event of default.

5. As of the date hereof, there are Sixty-Three (63) rental payments, each in the amount of \$191,098.98, remaining to be paid under Lease Schedule No. 31946-00016 and Sixty-Five (65) rental payments, each in the amount of \$40,938.60, remaining to be paid under Lease Schedule No. 31946-00018.

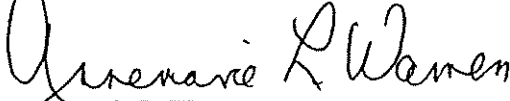
6. Lessee agrees to promptly send to Assignee such notices and other information (including, but subject to the execution of a mutually acceptable confidentiality agreement between Assignee and Lessee, such financial statements) as may be required to be sent to Assignee under the terms of the Designated Schedule, as assignee of Assignor's interest under the Designated Schedule, directly to:

Citizens Leasing Corporation  
One Citizens Plaza  
Providence, RI 02903

Should you have any questions concerning the Designated Schedule or this assignment, please contact Robin Donovan at (617) 434-3659.

Sincerely,

FLEET CAPITAL CORPORATION



Annemarie L. Warren  
Vice President



# AMENDMENT TO MASTER EQUIPMENT LEASE AGREEMENT NO. 31946

One Financial Plaza  
Providence, Rhode Island 02903-2305

This Amendment (this "Amendment") is attached to and made a part of that certain Master Equipment Lease Agreement No. 31946 dated as of OCTOBER 31, 1995 (the "Master Lease"), by and between the undersigned parties.

1. In addition to the provisions applicable to all Equipment set forth in Sections 12 and 18 of the Master Lease, the following shall apply to all Equipment:

During the Lease Term for each item of Equipment, Lessee shall maintain each item of Equipment in compliance with any and all Public Utility Commission Standards applicable to such items of Equipment.

2. Section 10 of the Master Lease is hereby amended by replacing the first sentence in its entirety with the following:

Lessee hereby grants to Lessor, to secure the payment and performance in full of all of Lessee's obligations under the Lease, a security interest in all Equipment subject to and more particularly described in the Lease Schedule in which Lessor may now or hereafter have rights, and all parts, accessories, accessions and attachments thereto, and all replacements, substitutions and exchanges (including trade-ins) for such goods, together with proceeds of all of the foregoing, including goods, accounts, chattel paper, documents, instruments, general intangibles, investment property, deposit accounts, letter of credit rights and supporting obligations (the "Collateral"), provided that with respect to any Lease Schedule denominated as a "True Lease Schedule" the foregoing grant of a security interest is made on a precautionary basis and shall not of itself be a factor in determining whether the Collateral secures an obligation or whether the Lease creates a security interest. For so long as any obligations of Lessee shall remain outstanding under any Lease, Lessee hereby further grants to Lessor a security interest in all of Lessee's rights in and to Equipment subject to such Lease from time to time, to secure the prompt payment and performance when due (by reason of acceleration or otherwise) of each and every indebtedness, obligation or liability of Lessee owing to Lessor, whether now existing or hereafter arising, including but not limited to all of such obligations under or in respect of any Lease.

3. The following is added as Section 21 of the Master Lease:

"Related Lease Schedules" means and refers to: (i) Leases covering Equipment intended to be or which otherwise becomes attached to, affixed to, or used in connection with other Equipment subject to any other Lease Schedule hereunder, or (ii) Leases entered into pursuant to or in respect of a single credit offering memorandum or credit approval of Lessor. Lessee agrees that if: (a) Lessor elects to exercise any purchase option, early termination option, renewal option, purchase obligation or early purchase option under any Related Lease Schedule; or (b) Lessee elects to return the Equipment under any Related Lease Schedule in accordance therewith, then, in either case, Lessor shall have the right, in its sole discretion, to require Lessee to elect the same or similar disposition for all Equipment subject and pursuant to the terms and provisions of one or more other Related Lease Schedules.

ALL PROVISIONS OF THIS AMENDMENT SHALL SURVIVE ANY EXPIRATION OR  
EARLIER TERMINATION OF THE LEASE.

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Master Lease. Except as specifically set forth herein, all of the terms and conditions of the Master Lease shall remain in full force and effect and are hereby ratified and affirmed. To the extent that the provisions of this Amendment conflict with any provisions contained in the Master Lease, the provisions of this Amendment shall control.

Dated as of: DECEMBER 08, 2003

FLEET CAPITAL CORPORATION

BAY STATE GAS COMPANY

By: Sandra Buonaiuto

By: Timothy J. Tokish

Name: Sandra Buonaiuto  
Title: Vice President

Name: Timothy J. Tokish  
Title: Vice President, Finance

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
SIXTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-6-9      Refer to Exh. BSG/JES-1, at 34; Exh. BSG/JES-1, Workpaper JES-6, at 30; and Exh. BSG/JES-1, Sch. JES-6, at 14. If the proposed postage increase is not approved as filed, what steps will the Company take to adjust rates accordingly?

Response:    Bay State expects the postage increase to be approved by Congress as submitted. If Congress approves a different amount or denies the proposed increase before the end of the investigative phase of this proceeding, Bay State will update its filing accordingly.

If no action is taken by Congress before the end of the investigative period and the Department denies the adjustment as not known and measurable, Bay State will adjust the expense category in the compliance phase of the proceeding to remove the proposed adjustment, and will include test year postage expense in the O&M expenses subject to the general inflation factor when that number is rerun for compliance.

**Supplemental Response:**

Assuming Congress has not approved the postage increase by the time the Department issues its order and the Department denies the adjustment as not known and measurable, the postage expense would not be included in the inflation adjustment since it is not impacted by general inflation.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**SUPPLEMENTAL RESPONSE**

DTE-9-1 Refer to Exh. BSG/JES-1, Workpaper JES-6, at 21. Please provide the basis for computing bad debt expense of \$8,244,660 for accounting purposes and the percentage of this expense to total test year firm billed revenues.

Response: The bad debt expense of \$8,244,660 is made up of the following factors:

|  |                  |
|--|------------------|
| Gross Accrual  | \$9,549,525      |
| Less Gas Cost portion of gross accrual                                 | <u>6,595,000</u> |
| Net Accrual  | \$2,954,525      |
| Bad Debt Recoveries  | \$5,290,135      |
| Total Bad Debt accrual reported on<br>Line 46 – Workpaper JES-6, pg 21 | \$8,244,660      |

Attachment DTE-9-1 (A) provides a narrative of the bad debt accrual process.

Attachment DTE-9-1 (B) provides a copy of the calculation utilized for 2004.

As requested, the percentage of the \$8,244,660 to total test year firm billed is as follows:

$$\$8,244,660 / \$473,368,000 = 1.74\%$$

However, the more appropriate comparison is as follows:

$$\$9,549,555 / \$473,368,000 = 2.01\%.$$

**SUPPLEMENTAL RESPONSE**

Please see Attachment DTE-9-1 (B), which was previously omitted from this response.

**Bay State Gas  
Bad Debt Reserve Accrual Methodology**

**Residential/Low Pressure Commercial Accrual Methodology**

Theoretically, Bay State charges off accounts receivable in excess of 120 days outstanding from the initial billing date (calendar days). Therefore, the December Provision for Uncollectible Accounts needs to reflect the portion of receivables recorded for September through December that will not be collected. The net charge-offs for the twelve month ended period (TME) December, divided by the TME August revenues, provides the most recent experience factor. This experience factor is multiplied by the September through December revenues to provide the needed balance of the provision for uncollectible account. Only the residential and low-pressure commercial customer class accounts receivable information is included in the above calculation.

The accrual (expense) recorded during the year reflects the difference between the prior period provision balance and the expected current year provision balance calculated as described above (accrual = current year estimated provision - prior year provision balance + current year net charge-offs). The accrual is allocated among the months based on a "revenue" curve. Net charge-offs are recorded as incurred. Budget information (updated for actual when available) is used in the calculations when recording the January through November accruals. Actual information is used to calculate and record the December entry. As budget changes occur throughout the year, the accrual is adjusted accordingly in the remaining months.

Attachment B in this response is a copy of the final calculation for 2004 and is the basis for the journal entries detailed below.

**Large Volume/High Pressure Methodology**

Large volume customers (non-residential and low pressure commercial) accounts are monitored individually and reserved on a case-by-case basis.

**Journal Entry To Record Accrual**

The summarized 2004 journal entries to record the accrual (expense) is as follows:

|       |                                       |               |
|-------|---------------------------------------|---------------|
| Debit | Account 904 – Uncollectible Expense   | \$9,549,524   |
|       | Credit Account 260 – Bad Debt Reserve | (\$9,549,524) |

**Gas Cost Portion of Bad Debt**

In accordance with the Cost of Gas Factor Clause Bay State recovers gas cost portion of bad debt expense through the Cost of Gas mechanism. The following summarized journal entry records the gas cost portion of the bad debt expense in the above entry to a regulatory asset pending recovery:

|       |   |             |
|-------|---|-------------|
| Debit | Account 182 – Regulatory Asset – Bad Debt | \$6,595,000 |
|-------|---|-------------|

Bay State Gas Company  
Witness: John Skirtich  
D.T.E. 05-27  
Attachment DTE-9-1 (A)  
Page 2 of 2  
Credit Account 904 – Uncollectible Expense (\$6,595,000)

The following entry is recorded to recognize the gas cost portion of bad debt expense – calculated to match the expense recorded with the revenue generated by the Cost of Gas bill component:

|        |   |               |
|--------|---|---------------|
| Debit  | Account 904 - Uncollectible Expense       | \$5,290,135   |
| Credit | Account 182 - Regulatory Asset – Bad Debt | (\$5,290,135) |

Bay State Gas  
UNCOLLECTIBLE ACCRUAL FOR 2004  
PREPARED Dec 12, 2004

**December 2004 actual**

|  | 2004<br>Actual<br>(000's) | 2004<br>10 & 2<br>(000's) | Difference<br>(000's) | 2004<br>Actual<br>(000's) | 2003<br>Actual<br>(000's) | Difference<br>(000's) |
|--|---------------------------|---------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| RESIDENTIAL BILLED SALES - SEP,2002 THROUGH AUG,2004 | 313,901                   | 313,901                   | 0                     | 313,901                   | 300,575                   | 13,326                |
| PLUS UNBILLED RESIDENTIAL SALES AUG,2004             | 5,629                     | 5,629                     | 0                     | 5,629                     | 4,161                     | 1,468                 |
| LESS UNBILLED RESIDENTIAL SALES AUG,2003             | (4,161)                   | (4,161)                   | 0                     | (4,161)                   | (3,200)                   | (961)                 |
| <b>TOTAL</b>   | <b>315,369</b>            | <b>315,369</b>            | <b>0</b>              | <b>315,369</b>            | <b>301,536</b>            | <b>13,833</b>         |
| NET CHARGED-OFF 12 MONTHS ENDED DEC,2004             | 9,076                     | 10,556                    | (1,480)               | 9,076                     | 8,728                     | 348                   |
| % OF SALES   | 0.02877899                | 0.03347190                | (0.00469292)          | 0.02877899                | 0.02894513                | (0.00016615)          |
| RESIDENTIAL BILLED SALES - SEP THROUGH DEC,2004      | 90,575                    | 91,255                    | (680)                 | 90,575                    | 77,705                    | 12,870                |
| PLUS UNBILLED RESIDENTIAL SALES DEC,2004             | 31,375                    | 25,556                    | 5,819                 | 31,375                    | 25,765                    | 5,610                 |
| LESS UNBILLED RESIDENTIAL SALES AUG,2004             | (5,629)                   | (5,629)                   | 0                     | (5,629)                   | (4,161)                   | (1,468)               |
| <b>SUB TOTAL</b>                                     | <b>116,321</b>            | <b>111,182</b>            | <b>5,139</b>          | <b>116,321</b>            | <b>99,309</b>             | <b>17,012</b>         |
| % OF SALES CALCULATION                               | 0.02877899                | 0.03347190                | (0.00469292)          | 0.02877899                | 0.02894513                | (0.00016615)          |
| Normal 35% CGA 65.00%                                |                           |                           |                       |                           |                           |                       |
| Ratio Balance 12/31/2004                             | 1,036                     | 2,312                     | 3,348                 | 3,348                     | 2,875                     | 473                   |
| Estimated over 120 days Charged Off                  |                           |                           | 0                     | 0                         | 0                         | 0                     |
| Desired Balance 12/31/2004                           |                           |                           | 3,348                 | 3,348                     | 2,875                     | 473                   |
| LESS RESERVE BALANCE 1/1/2004                        | 2,875                     | 2,875                     | 0                     | 2,875                     | 3,183                     | (308)                 |
| PLUS NET CHARGE-OFF                                  | 9,076                     | 10,556                    | (1,480)               | 9,076                     | 8,728                     | 348                   |
| <b>CALCULATED ACCRUAL</b>                            | <b>2,954</b>              | <b>6,595</b>              | <b>9,549</b>          | <b>9,549</b>              | <b>8,420</b>              | <b>1,129</b>          |
|  | 0.3093                    | 0.6907                    |                       |                           |                           |                       |

|            | Jan       | Feb       | Mar       | Apr       | May       | June      | July      | Aug       | Sept      | Oct       | Nov        | Dec         | Total     |
|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-------------|-----------|
| Normal     | 843,000   | 767,000   | 250,000   | 442,000   | 270,000   | 395,000   | 111,000   | 97,000    | 169,000   | 141,000   | 373,000    | (904,000)   | 2,954,000 |
| CGA        | 1,085,000 | 988,000   | 1,381,000 | 820,000   | 502,000   | 733,000   | 205,000   | 179,000   | 313,000   | 261,000   | 694,000    | (566,000)   | 6,595,000 |
| Total      | 1,928,000 | 1,755,000 | 1,631,000 | 1,262,000 | 772,000   | 1,128,000 | 316,000   | 276,000   | 482,000   | 402,000   | 1,067,000  | (1,470,000) | 9,549,000 |
| cumulative | 843,000   | 1,610,000 | 1,860,000 | 2,302,000 | 2,572,000 | 2,967,000 | 3,078,000 | 3,175,000 | 3,344,000 | 3,485,000 | 3,858,000  | 2,954,000   |           |
| cumulative | 1,085,000 | 2,073,000 | 3,454,000 | 4,274,000 | 4,776,000 | 5,509,000 | 5,714,000 | 5,893,000 | 6,206,000 | 6,467,000 | 7,161,000  | 6,595,000   |           |
| cumulative | 1,928,000 | 3,683,000 | 5,314,000 | 6,576,000 | 7,348,000 | 8,476,000 | 8,792,000 | 9,068,000 | 9,550,000 | 9,952,000 | 11,019,000 | 9,549,000   |           |

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE 9-5 Refer to Exh. BSG/JES-1, Sch. JES-6, at 9. Please provide a schedule showing the annual firm billed revenues, annual net-write-offs, and the percentage of write-offs to revenue billed for the years 1992 through 2001.

Response: Please see Table DTE-9-5. Net write-off information is not readily available prior to 2000.

**Table DTE-9-5**

| <u>Year</u> | <u>Firm<br/>Billed<br/>Revenue</u><br>(1)<br>\$ | <u>Net<br/>Write-Offs</u><br>(2)<br>\$ | <u>% of<br/>Write-Offs<br/>To Revenue</u><br>(3 = 2 / 1 ) |
|-------------|---|--|---|
| 1992        | 273,807,066                                     | 0                                      | 0.00%   |
| 1993        | 306,517,545                                     | 0                                      | 0.00%   |
| 1994        | 333,758,707                                     | 0                                      | 0.00%   |
| 1995        | 300,668,474                                     | 0                                      | 0.00%   |
| 1996        | 309,282,061                                     | 0                                      | 0.00%   |
| 1997        | 330,505,305                                     | 0                                      | 0.00%   |
| 1998        | 279,139,099                                     | 0                                      | 0.00%   |
| 1999        | 285,329,848                                     | 0                                      | 0.00%   |
| 2000        | 338,112,515                                     | 5,542,341                              | 1.64%   |
| 2001        | 405,412,041                                     | 8,100,254                              | 2.00%   |

Supplement: The write-off information for the years 1994 through 2001 is listed below. We will continue to search for the data relating to the years 1992 and 1993.

| <u>Year</u> | <u>Firm<br/>Billed<br/>Revenue</u><br>(1)<br>\$ | <u>Net<br/>Write-Offs</u><br>(2)<br>\$ | <u>% of<br/>Write-Offs<br/>To Revenue</u><br>(3 = 2 / 1 ) |
|-------------|---|--|---|
| 1994        | 333,758,707                                     | 4,045,704                              | 1.21%   |
| 1995        | 300,668,474                                     | 4,595,738                              | 1.53%   |
| 1996        | 309,282,061                                     | 2,354,318                              | 0.76%   |
| 1997        | 330,505,305                                     | 3,440,899                              | 1.04%   |
| 1998        | 279,139,099                                     | 4,919,933                              | 1.76%   |
| 1999        | 285,329,848                                     | 4,746,397                              | 1.66%   |
| 2000        | 338,112,515                                     | 5,542,341                              | 1.64%   |
| 2001        | 405,412,041                                     | 8,100,254                              | 2.00%   |

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-9-8 Please describe each of the per books items listed on lines 46 through 52 in Exh. BSG/JES-1, Workpaper JES-6, at 21 (or lines 2 through 8 of Workpaper JES-6, at 23) and cross-reference or explain how each of the indicated amount under the columns labeled "Gas Revenue Income Statement" and "EP&S [Energy Products and Services] Income Statement" was determined.

Response:

The \$86,737 of bad debt expense on line 47 of Workpaper JES-6, at 21 reflects costs associated with the Sundry and Guardian Care programs.

The \$326,029 of bad debt expense on line 49 of Workpaper JES-6, at 21 reflects costs associated with the Water Heater and Home Heater programs.

The bad debt expense for these items was calculated using the following formula:

12/31/04 reserve required  
Less 12/31/03 reserve required  
Plus 2004 charge-offs  
Equals 2004 bad debt expense

The reserve required at the end of 2003 and 2004 was the total of AR balances > 120 days outstanding at December 31.

**Supplement:**

The "Gas Revenue Income Statement" column is explained according to the references in the table below:

| Line | Description                       | Amount        | Reference        |
|------|-----------------------------------|---------------|------------------|
| 2    | Bad Debt Accrual                  | \$8,244,660   | DTE-9-1          |
| 6    | Bad Debt Accrual - Special        | \$245,169     | AG-27-10         |
| 8    | Bad Debt Write Off CGA Includible | (\$5,290,135) | JES-6<br>Page 18 |

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D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-9-13 Refer to Exh. BSG/JES-1, Sch. JES-6, at 10. Please provide the annual miscellaneous service revenues, other revenue net write-offs, and percentage of write-offs to revenue for years 1992 through 2001.

Response: Please see Table DTE-9-13. Net write-off information is not readily available prior to 2000.

**TABLE DTE-9-13**

| <u>Year</u> | <u>Misc.<br/>Service<br/>Revenue</u><br>(1)<br>\$ | <u>Other<br/>Revenue<br/>Net<br/>Write-Offs</u><br>(2)<br>\$ | <u>% of<br/>Write-Offs<br/>To Revenue</u><br>(3 = 2 / 1 ) |
|-------------|---|--|---|
| 1992        | 5,536,482   | 0  | 0.00%   |
| 1993        | 5,849,947   | 0  | 0.00%   |
| 1994        | 6,129,228   | 0  | 0.00%   |
| 1995        | 11,254,580  | 0  | 0.00%   |
| 1996        | 8,735,923   | 0  | 0.00%   |
| 1997        | 7,092,708   | 0  | 0.00%   |
| 1998        | 6,519,870   | 0  | 0.00%   |
| 1999        | 12,899,361  | 0  | 0.00%   |
| 2000        | 13,406,556  | 254,488  | 1.90%   |
| 2001        | 13,812,774  | 255,861  | 1.85%   |

**Supplement:** The write-off information for the years 1994 through 2001 is listed below. We will continue to search for the data relating to the years 1992 and 1993.

| <u>Year</u> | <u>Misc.<br/>Service<br/>Revenue</u><br>(1)<br>\$ | <u>Other<br/>Revenue<br/>Net<br/>Write-Offs</u><br>(2)<br>\$ | <u>% of<br/>Write-Offs<br/>To Revenue</u><br>(3 = 2 / 1 ) |
|-------------|---|--|---|
| 1994        | 6,129,228   | 89,269   | 1.46%   |
| 1995        | 11,254,580  | 88,683   | 0.79%   |
| 1996        | 8,735,923   | 88,822   | 1.02%   |
| 1997        | 7,092,708   | 275,822  | 3.89%   |
| 1998        | 6,519,870   | 275,822  | 4.23%   |
| 1999        | 12,899,361  | 154,117  | 1.19%   |
| 2000        | 13,406,556  | 254,488  | 1.90%   |
| 2001        | 13,812,774  | 255,861  | 1.85%   |

COMMONWEALTH OF MASSACHUSETTS  
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RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-9-19 Refer to Exh. BSG/JES-1, Sch. JES-6, at 10. Please provide a schedule, covering the period 1992 through 2004, that shows for EP&S revenues:  
(1) annual net write-offs;  
(2) annual amount of net write-offs recovered through the CGA;  
(3) percentage of annual net-write-offs recovered through the CGA.

Response: Table DTE-9-19 provides the EP&S annual net write-offs for the period 2000 through 2004. Net write-off information is not readily available prior to 2000. The Company does not recover write-offs related to EP&S revenue through CGA.

**TABLE DTE-9-19**

| <u>Year</u> | <u>EP&amp;S<br/>Net<br/>Write-Offs</u><br>\$ |
|-------------|--|
| 2000        | 254,488                                      |
| 2001        | 255,861                                      |
| 2002        | 586,771                                      |
| 2003        | 754,752                                      |
| 2004        | 609,767                                      |

**Supplement:** The EP&S net write-offs for the years 1994 through 2004 are listed below. We will continue to search for the data relating to the years 1992 and 1993.

| <u>Year</u> | <u>EP&amp;S<br/>Net<br/>Write-Offs</u><br>\$ |
|-------------|--|
| 1994        | 89,269                                       |
| 1995        | 88,683                                       |
| 1996        | 88,822                                       |
| 1997        | 275,822                                      |
| 1998        | 275,822                                      |
| 1999        | 154,117                                      |
| 2000        | 254,488                                      |
| 2001        | 255,861                                      |
| 2002        | 586,771                                      |
| 2003        | 754,752                                      |
| 2004        | 609,767                                      |

COMMONWEALTH OF MASSACHUSETTS  
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RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 12, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-9-20      Please provide a schedule covering the period 1992 through 2004 showing the following items:  
(1) annual firm therm sales;  
(2) annual firm billed revenues;  
(3) annual net write-offs;  
(4) annual net write-offs as percent of firm billed revenues;  
(5) annual net write-offs in cents per therm;  
(6) cumulative annual net write-offs for 1992 through 2004;  
(7) the average net write-offs in cents per therm for the 1992-2004 period.

Response:      Please see Attachment DTE-9-20. Net write-off amounts are not readily available prior to 2000.

**Supplement:** Please see Supplemental Attachment DTE-9-20. This attachment provides the requested information from 1994 through 2004. We will continue to search for the information for the years 1992 and 1993.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FOURTEENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: July 11, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

**Supplemental Response**

DTE-14-1 Refer to the Company's responses to DTE 6-9 and DTE 6-10 dated June 1, 2005. Please identify the mechanism that allows the Company to utilize the compliance phase of the proceeding to remove the proposed postage adjustment, and to include test year postage expense in the O&M expenses subject to the general inflation factor when that number is rerun for compliance. Provide all rules, regulations, and other documentation to support this process.

Response: I am not a lawyer, but my understanding of the Department's rate setting practice for postage is as follows. Postage is normally adjusted for known increases. The inflation factor adjusts all miscellaneous O&M that are not individually adjusted. Since a formal announcement of an increase has been provided, even though the date of commencement of the increase has not yet been established, it is reasonable that the increased expense be recovered as part of an individual adjustment, and if not there then in the revenue requirement categories of costs that are subject to the inflation allowance. I personally am unaware of this particular situation being presented in any prior rate proceeding before the Department relative to postage expense.

**Supplemental Response:**

Assuming Congress has not approved the postage increase by the time the Department issues its order, and the Department denies the adjustment as not known and measurable, the postage expense would not be included in the inflation adjustment since it is not impacted by general inflation.